BRI MONITOR

TRANS-SABAH GAS PIPELINE (TSGP)

Prepared by:
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The Institute for Democracy and Economic Affairs (IDEAS) is a nonprofit research institute based in Malaysia dedicated to promoting solutions to public policy challenges.

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Project Summary

The Trans-Sabah Gas Pipeline (TSGP) is a RM4.06 billion (US $969.9 million)1 petrochemical and gas pipeline project that aims to provide a solution to the power shortage problem in Sabah, as well as increase job opportunities in the region and move Sabah higher up the value chain. It is commonly stated by media outlets, think tanks and academics that the TSGP is a BRI-related project, although this is not officially confirmed.3 The pipeline will be installed from the oil and gas terminal in Kimanis, Sabah to Sandakan and Tawau.4 The project owner is Suria Strategic Energy Resources Sdn Bhd (SSER), a special purpose vehicle established in 2016 to implement the project. The TSGP is one of two projects managed by SSER and awarded to the China Petroleum Pipeline Bureau (CPPB).5 The other project is the Multi-Product Pipeline (MPP), which is a 600 km multi-product petroleum pipeline connecting Melaka and Port Dickson in the Southern Malay Peninsula to Jitra in the north. This brief will focus on the TSGP. The gas pipeline project was terminated in 2018 by the Pakatan Harapan government, but in a written response to parliament in early October 2021, Finance Minister Tengku Zafrul announced that the Perikatan Nasional-led government had decided to revive the project on February 10th, 2021. He also revealed that SSER and the finance ministry had resumed discussions with the China Petroleum Pipeline Bureau (CPPB) and are now finalizing the project’s new terms and conditions.6

Project Scope

The Trans-Sabah Gas Pipeline (TSGP) project, a proposed 662 km (411 mile) petrochemical and gas pipeline located in Kimanis Sabah and extending to Sandakan and Tawau, has been framed as a solution to the power shortage problem in Sabah.7 The state of Sabah experiences an average of four hour-long power outages compared to shortages of less than an hour in the Peninsular.8 The TSGP pipeline planned to serve as the energy source for a 300MW gas-turbine power facility that would provide improved power supply, which was instructed by the Energy Commission to “ascertain the terms and conditions of the gas supply required for the project.”9 According to then-government minister Abdul Rahman Dahlan, the TSGP was projected to move Sabah “up the value chain, adding value to its local

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1. This case study uses a conversion rate of 1 Malaysian Ringgit to US$0.24.
commodities and raw materials… [reducing] the state’s dependency on its primary industries and [creating] employment for people throughout the region.”

Although there is no mutually agreed-upon list of which infrastructure projects between Malaysia and China come under the aegis of China’s Belt and Road Initiative (BRI), media outlets, think tanks, and academics commonly identify the TSGP is a BRI-related project. However, the TSGP’s relation to the BRI has never been officially confirmed in any official capacity by any relevant Malaysian or Chinese authorities, raising issues about not only the project’s transparency, but the larger transparency of BRI-related projects in Malaysia.

Figure 1: Map showing the planned route of the TSGP


Project Structure

The project owner of the TSGP is Suria Strategic Energy Resources (SSER), which is wholly owned by Malaysia’s Ministry of Finance. Established on May 19, 2016, the company was set up to oversee both the MPP and the TSGP projects. There is little publicly available information concerning SSER, including the company’s governance structure or financial health. However, the SSER’s latest Companies Commission of Malaysia (Syarikat Suruhanjaya Malaysia, or SSM) records demonstrate that the company was unable to generate revenue: According to the records, SSER made a major loss of RM32 million (US$7.64 million) and a retained earning deficit of RM47.2 million (US$11.28 million), based on figures that were tabled on September 13, 2021.

The Ministry of Finance took over the management of SSER on June 5, 2018, appointing a new chairman and executive committee in the wake of the revelation of the Ministry’s ‘red files’, which linked the MPP and TSGP projects to the 1MDB-linked scandal, surrounding the MPP and TSGP projects. Then-Finance Minister, Lim Guan Eng, stated in June, 2018 that the ministry had “discovered that the payment schedule for the above contracts is based almost entirely on timeline milestones, and not on progressive work completion milestones.”

The SSM records show that the Ministry of Finance acquired the company for RM30 million (US$7.17 million) through its corporate body, the Ministry of Finance (Incorporated). Following this acquisition, the Malaysian Anti-Corruption Commission (MACC) initiated a raid of several SSER offices to confiscate any documents related to the gas pipeline projects due to allegations of a criminal breach of trust and money laundering. On January 15, 2019, Bank Negara Malaysia (BNM) issued summons against SSER for the infringement of BNM conditions, and the company was fined a total of RM18 million ($4.3 million). (For a full timeline of the project and SSER’s involvement, please see Section 4.2 Current Status.)

China Petroleum Pipeline Engineering Corporation (CPPE), a subsidiary of China National Petroleum Corporation (CNPC), led the project’s engineering, procurement, construction, and commissioning (EPCC) of the project. CPPE is a Chinese state-owned enterprise headquartered in Hebei, China, and has built a number of major pipeline projects, including the West-East Gas Pipeline, the TransAsia Gas Pipeline, the Shaanxi-Beijing Gas Pipeline and the Myanmar-China Pipeline.

SSER awarded a three year contract agreement for the TSGP project to China Petroleum Pipeline Bureau (otherwise known as CPPB, which is a subsidiary of CPPE), along with the MPP project, on November 1, 2016. This contract was for EPCC work as well as Consultancy Services Agreements and Maintenance and Project Management Consultancy contracts totaling RM 10,385 million for both the MPP and TSGP projects. According to media outlets, the contract does not seem to have been awarded based on an open bidding process. Indeed, according to an article by the Malaysian news outlet The Malaysian Reserve, published in June 2018, the TSGP is one of a series of Chinese mega-projects in Malaysia awarded “without a competitive tender.” The projects received Cabinet approval on July 27, 2018.

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16. Ibid.
18. Belt and Road, 2018.
Cost and Financing

Although the MPP and TSGP projects are collectively valued at an estimated RM9.4 billion (US$2.25 billion), this did not include other consultation fees. The total approximate value with these fees is RM10.4 billion (US$2.49 billion): RM9.4 billion (US$2.24 billion) for the EPCC contracts, a RM688 million (US$164.42 million) consultancy services agreement, and RM312 million (US$74.56 million) for project management consultation. While most official statements refer to the collective costs of both the MPP and TSGP projects, in November 2017, then-Minister in the Prime Minister’s Office Datuk Seri Abdul Rahman Dahlan stated that the TSGP would be specifically funded by a RM4.53 billion (US$1.08 billion) loan from the Export and Import Bank of China (China EXIM Bank), adding that the loan constituted the “total cost” of the project. He also stated that materials, equipment, and labor to build the pipeline would be sourced from within and outside the country. There was no clarification about which countries these materials or labor would be sourced from.

The two pipeline projects were partly financed by a RM7.8 billion (US$1.8 billion) loan from China EXIM Bank. This amount covers approximately 85 percent of the project costs for both the MPP and the TSGP pipeline and will be a 20-year loan facility guaranteed by the government with an interest rate of 3.25 percent. As of May 27, 2019, RM6.9 billion (US$1.65 billion, or 88 percent) of the China EXIM Bank loan has been disbursed. The remaining 15 percent was to be footed by the government through a sukuk issuance that has yet to be disbursed.
SSER also applied for a RM1.2 billion (US$286.7 million) revolving credit facility from Malaysia-based CIMB Bank. The revolving credit facility was given on an 18-month period and was to be paid back completely in July 2019. It is unknown if this revolving credit facility was ever repaid, with the most recent information dated May 2019 noting that SSER and CIMB were in discussions to have SSER pay only RM0.6 billion this year, with the rest to be settled in 2020.26

Project Background and Timeline

TSGP Initiation

In 2013, Chinese President Xi Jinping visited Malaysia to sign a Five Year Program for Economic Trade and Cooperation with the Malaysian government, which aimed to strengthen bilateral relations between China and Malaysia, thus improving strategic cooperation between both countries.27 In 2015, the Associated Chinese Chambers of Commerce and Industry of Malaysia (ACCCIM) and the Bank of China held the “One Belt One Road” Malaysia-China Economic Conference in Malaysia, which aimed to give both local and Chinese businesses the opportunity to expand their networks in trade and other investments.28

On May 10, 2016, Chinese State Councilor Yang Jiechi made a formal visit to the Prime Minister’s office to further discuss China-Malaysia relations. Two months later, on July 27, 2016, then-minister Datuk Seri Abdul Rahman Dahlan presented the ECRL, MPP, and TGSP projects to the cabinet and all three projects received cabinet approvals.29

Najib made an official visit to Beijing from October 31 to November 5, 2016 to secure a full renminbi-bond underwriting agreement, full funding agreement and full EPCC agreement for the ERCL and pipeline projects.30 During his visit, he met with President Xi Jinping, Premier Li Keqiang, and Chairman of the Standing Committee of the 12th National People’s Congress Zhang Dejiang. Najib and Li signed a Memorandum of Understanding (MOU) for the pipeline projects in Beijing on May 14, 2017.31

Current status

Almost a year later, in May 2018, Malaysia’s 14th General Election resulted in a change in government from the 60-year-long Barisan Nasional incumbency to Pakatan Harapan (PH), ending the second term of Najib Tun Razak’s administration. Pakatan Harapan had to deal with an extravagant RM1 trillion (US$240 billion) national debt.\textsuperscript{32} Then-Prime Minister Tun Dr. Mahathir Mohamad’s administration reviewed the mega loans and projects administered during Najib’s term and ultimately cancelled three projects with China: namely the ECRL, the MPP, and the TSGP.\textsuperscript{33}

On June 5, 2018, Finance Minister Lim Guan Eng revealed that SSER made nearly 90 percent of payments to the SSER pipeline project contractors despite little significant progress on the ground.\textsuperscript{34} Minister Lim directed the finance ministry to file a report with the Malaysian Anti-Corruption Commission (MACC), which investigated these claims and SSER’s links to 1MDB subsidiary SRS International.\textsuperscript{35} As a result of the investigation, all SSER employees were put on indefinite leave.\textsuperscript{36} The Ministry of Finance released a media statement on May 27, 2019 that highlighted transparency issues with the ECRL and the two gas pipeline projects, linking them to mismanagement. On June 11, 2018, the Ministry instructed SSER to engage with Grant Thornton Malaysia as management consultants throughout the investigation.\textsuperscript{37}

Shortly thereafter, the Ministry of Finance Inc. (MoF Inc.), under the instruction of then-Prime Minister Mahathir, ordered the immediate suspension of all projects relating to the MPP, the TSGP and ECRL.\textsuperscript{38} Malaysia also seized more than RM1 billion (USD $238.92 million) from CPPE’s account following the suspension. Finance Minister Lim stressed that this decision was only directed at the contractors and was not intended to disrupt bilateral China-Malaysia relations.\textsuperscript{39}

After allegations of a criminal breach of trust and money laundering came to light, the Malaysian Anti-Corruption Commission (MACC) initiated a raid of several offices to confiscate any documents related to the gas pipeline projects on July 18, 2018.\textsuperscript{40} Prime Minister Mahathir announced the termination of the projects in August 2018, and the TSGP was officially terminated on September 6, 2018.\textsuperscript{41}

Following the termination, in an article by Malaysian news outlet Malaysiakini it was stated that the government pledged to retrieve the RM8.3 billion (US$1.98 billion) already paid to the contractors.\textsuperscript{42} According to a 2019 media statement by the Ministry of Finance, all contracts in relation to the MPP...
and TSGP projects had amounted to RM10.4 billion (US$2.49 billion). RM9.4 billion alone accounted for the engineering, procurement, construction and commissioning (EPCC) contracts, a large portion of which was paid out to the China-based contractors CPPE and Huanqiu Project Management (Beijing) Co Ltd. (HQPMC).

Najib would attempt to clarify what he described as five ‘misconceptions’ related to the ECRL and pipeline project in August 2018, specifically: the exorbitant project costs, the high interest rate of the China EXIM Bank loan, the feasibility of Malaysia’s capacity to repay the loan from the Chinese bank, and the lopsided payments made for the projects. With regards to the exorbitant payments for the TSGP project, he argued that they were due to the design costs, and that the pipe laying costs itself would not be as expensive. He also stated that the payments for engineering, procurement, construction, and commissioning (EPCC) were made directly to the China EXIM bank and not to the contractors, as alleged by Lim. The final misunderstanding he addressed regarded the poor Return on Investment (ROI) of the projects: he stated that critics should look beyond projected passenger and cargo loads and consider the spillover effect on the wider economy due to the projects (although he did not specify exactly what spillover effect the TSGP project would have created). Najib called for the government to conduct a Royal Commission of Inquiry (RCI) on the allegation of misconduct and corruption to determine whether the termination of the ECRL and pipeline project were made with sound judgement and evidence on August 23, 2018.

After the government of Malaysia issued a suspension notice to halt work on the ECRL, MPP, and TSGP, the Malaysian government sent Tun Dr Abdul Daim Zainuddin, a member of the Council of Eminent Persons (CEP) to negotiate the terms of the cancellation of the gas pipeline projects and renegotiate the ECRL project with the Chinese government. As of January 2021, negotiations to reclaim the funds already paid for the terminated projects from the Chinese contractors to SSER were still underway, despite seven discussions held between 2018 and 2019. In a statement issued by the Ministry of Finance dated May 27, 2019, Lim also noted that the reported 13 percent progress on the pipelines was still unaudited and unverified.

On January 15, 2019, Bank Negara Malaysia issued summons against SSER for infringements of the Financial Services Act 2013 on both the MPP and TGSP projects. The industrial court listed six charges against SSER for not abiding to BNM conditions on procurement of loans, approval for changes in project timeline, as well as failure to ensure good and effective governance practice. SSER was called to the court for a hearing and pleaded guilty to the charges.

On September 5, 2019, the 1MDB-Tanore Trial, which involved former special officer to Najib Tun Razak, Datuk Amhari Efendi Nazaruddin as a witness, took place at the Kuala Lumpur High Court. During the trial, Datuk Amhari laid out a timeline of events and exchanges that linked the ECRL and two gas pipeline projects to the 1MDB scandal, further affirming Lim’s earlier allegations of 1MDB involvement. Datuk Amhari alleged to secure a bailout from the Chinese government for the then-struggling 1MDB, Najid had offered a handful of mega infrastructure projects that Malaysia could offer Chinese state-owned enterprises, which included the MPP and TSGP. Furthermore, on June 6, 2020 a hearing was held

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43. Ministry of Finance Malaysia 2019
at the Industrial Court on the issue of unfair employee retrenchment by former SSER employees who were retrenched in August 2018.⁴⁷

The most recent update of this case is the apparent reinstatement of the project in late 2021. In early October 2021, Finance Minister Tengku Zafrul revealed to parliament that the TSGP had been revived under Muhyiddin Yassin’s Perikatan Nasional (PN) government on February 10, 2021.⁴⁸ Since the controversial announcement of the TSGP’s resumption, multiple concerns regarding the project’s transparency and financial viability have resurfaced. Pakatan Harapan’s leaders have demanded a thorough investigation by the Malaysian Anti-Corruption Commission regarding the project’s revival, emphasizing that they were “extremely shocked” by Muhyiddin’s decision.⁴⁹

Table 1: TSGP project timeline

<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>May 19, 2016</td>
<td>SSER established.</td>
</tr>
<tr>
<td>June 2016</td>
<td>Datuk Amhari was sent by then Prime Minister Najib Tun Razak, along with Jho Low, to Beijing to discuss the terms of these projects with Beijing’s state-owned enterprises.</td>
</tr>
<tr>
<td>July 18, 2016</td>
<td>“Update On China-Malaysia Economic Program: 18 July 2016” meeting document published, which also detailed payment methods between China’s GLCs and 1MDB involving the ECRL and pipeline projects.</td>
</tr>
<tr>
<td>July 27, 2016</td>
<td>Pipeline projects received cabinet approval.</td>
</tr>
<tr>
<td>October 31, 2016</td>
<td>Najib’s official visit to China to secure Full Renminbi-bond Underwriting Agreement, Full Funding Agreement, ‘Full EPCC Agreement’ for ERCL and pipeline projects.</td>
</tr>
<tr>
<td>November 1, 2016</td>
<td>SSER won contracts for MPP and TGSP, awarded three year agreement to CPPE.</td>
</tr>
<tr>
<td>March 22, 2017</td>
<td>SSER secured funding from China EXIM Bank.</td>
</tr>
<tr>
<td>April 2017</td>
<td>Works for pipeline started.</td>
</tr>
<tr>
<td>May 21, 2018</td>
<td>Pakatan Harapan government assumed office after winning the 14th General Election.</td>
</tr>
<tr>
<td>June 5, 2018</td>
<td>Finance Minister Lim Guan Eng revealed suspicious advance payments for the pipeline projects, despite only 13 percent of the work being completed.</td>
</tr>
<tr>
<td>June 11, 2018</td>
<td>Employees of SSER put on indefinite leave due to an investigation by the Malaysian Anti-Corruption Commission (MACC).</td>
</tr>
<tr>
<td>June 25, 2018</td>
<td>Grant Thornton Malaysia engaged as management consultants.</td>
</tr>
<tr>
<td>July 3, 2018</td>
<td>An official suspension notice was issued by the Ministry of Finance through MoF Inc.</td>
</tr>
<tr>
<td>July 10, 2018</td>
<td>The Ministry of Finance appointed a new chairman and executive committee from Grant Thornton Malaysia to manage SSER.</td>
</tr>
<tr>
<td>July 18, 2018</td>
<td>The Malaysian Anti-Corruption Commission (MACC) initiated a raid of several of SSER’s offices to confiscate any documents relating to the gas pipeline projects.</td>
</tr>
</tbody>
</table>

⁴⁷ The Edge Markets, ‘ECRL, pipeline projects offered to China to bail out 1MDB’, September 2019
⁴⁸ Fong, “Controversy as RM4bil Sabah gas pipeline project revived:”
<table>
<thead>
<tr>
<th>Date</th>
<th>Event Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>August 2018</td>
<td>Issuance of retrenchment letter for SSER employees.</td>
</tr>
<tr>
<td></td>
<td>PM Mahathir announces termination of MPP and TGSP projects.</td>
</tr>
<tr>
<td>September 6, 2018</td>
<td>Official termination of MPP and TGSP projects.</td>
</tr>
<tr>
<td>October 25, 2018</td>
<td>Sessions Court in Kuala Lumpur charged Najib and former Treasury Secretary-General Tan Sri Irwan Serigar Abdullah with six counts of criminal breach of trust involving federal government funds amounting to $1.59 billion.</td>
</tr>
<tr>
<td>January 7, 2019</td>
<td>Wall Street Journal publishes the report “WSJ Investigation: China Offered to Bail Out Troubled Malaysian Fund in Return for Deals.”</td>
</tr>
<tr>
<td>January 15, 2019</td>
<td>Bank Negara Malaysia (BNM) issued summons against SSER for the infringement of BNM conditions.</td>
</tr>
<tr>
<td>September 5, 2019</td>
<td>IMDB-Tanore Trial at Kuala Lumpur High Court involving Datuk Amhari Efendi Nazaruddin, former Special Officer.</td>
</tr>
<tr>
<td>June 6, 2020</td>
<td>Employee Retrenchment Issue Hearing.</td>
</tr>
<tr>
<td>February 10, 2021</td>
<td>The Perikatan Nasional (PN) government under Muhyiddin decides to revive TSGP.</td>
</tr>
<tr>
<td>October, 2021</td>
<td>Finance Minister Tengku Zafrul reveals PN’s decision to revive the TSGP in a written report to the Dewan Rakyat.</td>
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**Issues associated with the TSGP**

**Advance payments made to CPPE**

In a 2019 Ministry of Finance press statement, Finance Minister Lim Guan Eng stated that even though SSER had already paid out RM8.3 billion (USD $1.98 billion) to the contractors representing 88% of TSGP’s total project cost, there was no significant development on the ground, with only 11.4% of land clearing completed. Lim also stated that the request for a site visit to check on the progress of the pipeline was initially denied by the contractors. Upon arriving at the site, they discovered that there was no progress on the pipes. Lim criticized the agreement and opined that payments based on a timeline’s progress rather than on work progress was illogical.

Lim also stated that when confronted about the possible relation of the projects to the exorbitant payment made in the project’s first year, Najib evaded the question and made claims that as part of the pipeline megaproject agreements, China committed to increasing imports and investments as well as providing 10,000 job opportunities. However, Treasury officials have denied these claims as they were neither documented nor presented at the Cabinet in 2016 and 2017.

**Infringement of BNM conditions**

On January 15, 2019, Bank Negara Malaysia (BNM) issued summons against SSER for the infringement of BNM conditions related to governance of the project. Six charges were issued under the failure to adhere to Section 214 (2) and (5) of the Financial Services Act 2013.

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The six charges were:

1. The disbursement of a loan worth 88 percent of the project value was not in accordance with the progress of the MPP project, which was only 13 percent completed, and remains unverified or unaudited.

2. The failure to ensure good and effective governance practices in the management and implementation of the MPP.

3. The failure to obtain BNM’s approval for changes in the project timeline of the MPP.

4. The disbursement of the loan was not in accordance with the progress of the TSGP.

5. The failure to ensure good and effective governance practices in the management and implementation of the TSGP.

6. The failure to obtain BNM’s approval for changes in the project timeline of the TSGP.

Section 214 (2) and (5) of the Financial Services Act 2013 relate to measures pertaining to international and domestic transactions. These clauses detail that no engagement of any transactions can be carried out without prior written approval from the bank, and that in the instance of non-compliance, may be liable to punishments sanctioned.\(^\text{54}\)

SSER pled guilty to all six offenses and Sessions Court Judge Manira Mohd Nor fined SSER RM3 million per offense committed, amounting to a total of RM18 million (US$4.3 million).\(^\text{55}\) SSER duly paid these fines.\(^\text{56}\)

**Connections to 1Malaysia Development Bhd (1MDB)**

After the PH came into power in 2018, both gas pipeline projects under SSER—along with the ECRL project—were allegedly linked to money-laundering by the Najib administration to pay off 1MDB-related debts through the offering of lucrative contracts.\(^\text{57}\) A media statement by the Ministry of Finance dated June 11, 2018, noted the possibility of 1MDB involvement and identified transparency issues related to corruption and mismanagement, including that the terms and details of these projects were never publicly revealed during Najib’s administration.\(^\text{58}\)

On January 7, 2019, the *Wall Street Journal* published an investigation report titled “WSJ Investigation: China Offered to Bail Out Troubled Malaysian Fund in Return for Deals.” It claimed that fugitive financier

Low Taek Jho (widely known as Jho Low) was involved in the controversial offer by China to bail out the 1MDB debt in return for multi-billion ringgit mega infrastructure projects.59

The allegations stated in the report have all been denied by Najib, the Chinese embassy in Kuala Lumpur, and Jho Low. Jho Low also made a statement through a spokesman, Benjamin Haslem, that the report was an attempt by Mahathir’s regime (PH) to manipulate the public into conducting a trial by media. He claimed that the report was misleading and untrue.60

During the 1MDB-Tanore trial in September 2019, former Special Officer Datuk Amhari Efendi Nazaruddin told the Kuala Lumpur High Court that in order to receive a bailout to pay off the debts accumulated under the 1MDB, Datuk Seri Najib Razak agreed to several mega infrastructure projects with China, including the TSGP and the MPP61. During the session, Amhari stated that he was sent to Beijing in June along with Jho Low to discuss the terms of these projects with Beijing-based state-owned enterprises. Amhari recounted that during the discussions, the joint venture projects were presented as investments to provide funds to repay the debts of Abu Dhabi’s International Petroleum Investment Co (IPIC), a subsidiary of 1MDB. The discussions attended by Amhari and Jho Low in June laid out plans for Najib’s November visit to Beijing, in which he would sign the agreements and secure fundings for the ECRL project and the pipeline projects under SSER.62

Amhari also informed the High Court that Director of 1MDB Geh Chong Heng (also known as Terence Geh) had been involved in the negotiations of the three projects, as well as a negotiation on July 18, 2016 (of which Amhari was not a part) that discussed sales of 1MDB assets. The document on that meeting, entitled “Update On China-Malaysia Economic Program: 18 July 2016,” also detailed payment methods between China’s state-owned enterprises and 1MDB. Jho Low was later asked to dispose of the incriminating document. Amhari revealed that Terence Geh was also appointed as the secretariat responsible for the ECRL, TSGP, and MPP projects.63

Additionally, on October 25, 2018 the Sessions Court in Kuala Lumpur charged Najib and former Treasury Secretary-General Tan Sri Irwan Serigar Abdullah with six counts of a criminal breach of trust involving federal government funds amounting to RM6.64 billion (US$1.59 billion). Two of those charges were related to the RM1.86 billion (US$443.09 million) allocated for the ECRL projects and the two gas pipeline projects. Najib and Irwan both pleaded not guilty to all charges.64

**Lack of feasibility study**

Democratic Action Party (DAP), one Malaysia’s political parties (and former component of the Pakatan Harapan coalition), also flagged the absence of a feasibility study for the TSGP. The party’s Secretary Chan Foong Hin insisted on a feasibility study for the TSGP project and questioned the necessity of a loan with China instead of using private finance initiative options (PFI) or involving Malaysia’s state-

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64. “Cancelled or postponed infrastructure projects due to budget constraints,” EdgeProp, December 29, 2018, [https://www.edgeprop.my/content/1457912/cancelled-or-postponed-infrastructure-projects-due-budget-constraints](https://www.edgeprop.my/content/1457912/cancelled-or-postponed-infrastructure-projects-due-budget-constraints)
owned oil and gas company PETRONAS, which controls Malaysia's monopoly of gas distribution and pricing.\(^{65}\)

In an article for Malaysian news outlet Daily Express published on November 11, 2017, the current chairman of Sabahan state-owned enterprise Yayasan Sabah Group Dr. Johan Arriffin Samad questioned then Minister in the Prime Minister's Department Datuk Seri Rahman Dahlan's defense of TGSP. He argued that gas pricing would be too high without a subsidy to develop industries and move up the value chain, that reliance on gas was not feasible (as it is a scarce resource) and that acquiring electricity off the grid is a far more economical alternative. Another issue regarding the feasibility of the TGSP project was the throughput charges that Ranhill Utilities Berhad—a conglomerate with interests in the power and environment sectors—had to pay SSER for using the TGSP to operate the 300MW power plant. Without a subsidy, gas pricing would make operating the power plant, which was a key justification for the pipeline, too costly. He also stated that the MPRC found that the area was not conducive to accommodating petrochemical industry developments, especially since with no supporting oil and gas supply chains nearby.\(^{66}\)

### Lack of Environmental Impact Assessment

The former Chief Executive Officer of Sabah's Institute for Development Studies Datuk Dr Johan Arriffin also expressed concern about PETRONAS's lack of involvement in this project and questioned whether a detailed Environmental Impact Assessment (EIA) had been carried out to assess the impacts of the project, especially as the proposed route of the pipeline would likely cross the tropical rainforests of Sabah.\(^{67}\) In 1985, the Environment Quality Act 1974 (otherwise known as the EQA) was amended to balance Malaysia's often contradictory goals of burgeoning economic development and environmental preservation. These amendments included Section 34A, which was added to mitigate the environmental degradation caused by industrial projects and empowers the Minister of Environment and Water to legally require EIAs for “any activity which may have significant environmental impact.”\(^{68}\) According to the 1987 appendix by the Department of Environment, petrochemical activities and oil and gas development—including the construction of on- or off-shore pipelines longer than 50km in length—are among those activities.\(^{69}\) The document also specifically states that these laws are applicable to Sabah.


\(^{67}\)  Arriffin, 2017.


and Sarawak.\textsuperscript{70} Under the original 1974 EQA, EIAs for oil and gas activities in particular are required to be carried out at the earliest phase of project planning, with environmental considerations continuing to be factors in the development and operation processes.\textsuperscript{71}

Nevertheless, it remains unclear whether an EIA was conducted for the TSGP.\textsuperscript{72} Without the publication of this assessment, or the knowledge that a proper assessment was conducted at all, it is difficult to gauge whether the project planners were aware of the TSGP’s feasibility issues and its potential for costly environmental mistakes that would later require modifications and legislative interventions. The lack of an EIA for a project of this scale was a clear governance oversight.

**Land acquisition rights**

TSGP does not appear to have followed legally required processes for land acquisition from the state government of Sabah. Land acquisition rights are governed by the First Schedule of the Land Acquisition Rules 1998, Land Ordinance (Sabah Cap. 68) 1950 and Land Acquisition Ordinance (Sabah Cap. 69) 1950. To acquire land in Sabah, a “declaration must be published in two ordinary issues of the Gazette,” as per the Sabah Land Acquisition Ordinance.\textsuperscript{73} Works and negotiations can only be finalized after the terms and conditions of sale for the land acquisition have received approval from the Yang di-Pertua Negeri, the head of the Sabah state. No such declaration of the land acquisition publication in the Gazette appears to have been published.\textsuperscript{74} Despite this discovery, Najib stood firm on his claim that all regulations, procedures, and laws were followed when signing the agreement.\textsuperscript{75}

Failure to comply with land acquisition rules is likely to be costly. Lim noted in October 2021 that the project’s RM9.4 billion ($2.25 billion) contracts failed to consider the cost of land acquisition and consultancy and maintenance agreements, all of which would total an additional RM1.7 billion (USD $406.07 million).\textsuperscript{76} Furthermore, failure to secure land acquisition after the reinvigoration of the project could delay the project, as was the case with the TSGP in 2017 when the project was first launched without informing Sabahans beforehand.\textsuperscript{77}

**Retrenchment hearing**

After operations of SSER were suspended indefinitely and Grant Thornton Malaysia took over its management (a move which resulted in many sudden retrenchments), twenty-two SSER employees filed a report on the account of unfair retrenchment to the Industrial Court. However, the claims were dismissed by the Industrial Court on the basis that the retrenchment of the employees was fair.\textsuperscript{78} The

\textsuperscript{70} Ibid.


\textsuperscript{75} Ministry of Finance, 2018


\textsuperscript{77} Arriffin, 2017

\textsuperscript{78} Zainal, 2020.
former employees accused SSER of violating the Code of Conduct for Industrial Harmony and not following up on relocation efforts. Noor Ruwena, Chairman of the Industrial Court, ruled that the company was not obligated to ensure that its employees were transferred to another company to avoid being retrenched, or to warn its employees prior to the retrenchment.  

**Lack of Transparency**

There is an overarching lack of transparency around the contracts, with many details of the project undisclosed. Major information about the project is not available, including:

- The total cost of the project;
- whether a feasibility study and EIA were conducted;
- whether land acquisition rules were complied with;
- the terms of the loan taken out to fund this project (e.g., was the use of Chinese contractors part of the agreement);
- the possible connection of the TSGP to the 1MDB scandal.

Referring to the lack of transparency surrounding the project, Lim Guan Eng, hinted at the existence of “red” Cabinet minutes that could only be accessed by Najib during his administration. He also questioned why the ECRL projects and SSER projects were always presented together for Cabinet approval by Datuk Seri Abdul Rahman Dahlan since the details and stakeholders of the projects differ. The only similarity was that all of these projects were financed by China’s EXIM Bank.

**Conclusion**

The TSGP project is one of the most controversial and complicated Belt and Road Initiative projects in Malaysia, having been suspended and apparently terminated by the Malaysian government in 2018 and unprecedentedly restarted in 2021. Although Malaysia agreed to pay for the work completed during the TSGP project, there was no clarification about the remaining funds that had already been paid out for incomplete works, despite ongoing negotiations by both parties.

This process is further complicated by the ambiguity surrounding the projects. To date, the negotiations related to the project have remained obscure, and many parties have expressed concerns about the
TSGP’s opaque history now that it has been revived. More proactive measures need to be taken by the government to ensure better transparency in the future. One of the steps that can be taken by the government is to design a more rigorous procedure for the approval of major infrastructure projects, especially projects partnered with foreign investors.
BRI Monitor is a collaborative effort by five civil society organizations in Southeast Asia and the Pacific: the Institute for Democracy and Economic Affairs (IDEAS) of Malaysia, Stratbase Albert Del Rosario Institute (ADRI) of the Philippines, Sandhi Governance Institute (SGI) of Myanmar; the Institute of National Affairs (INA) of Papua New Guinea and Future Forum of Cambodia to promote transparency and accountability in major infrastructure projects funded through the Belt and Road Initiative (BRI) in the region.

These organizations have studied the regulatory environments governing these large infrastructure projects in respective countries, including public procurement, official development assistance, public private partnership (PPP), and more, to identify regulatory gaps. They have each researched a set of case studies to identify implementation gaps and governance gaps. Each case study assesses the level of transparency based on almost 40 data points, from basic project information to the tendering process to project completion. Last but not least, each organization maps out the structure of the projects in question in order to identify domestic and international entities involved in the project and to understand the degree of public financial exposure resulting from each project.

This website is intended to be a platform for the publication of our research outputs and as a knowledge repository. We also hope that the website can be used as a platform for knowledge sharing and a tool to advocate better governance of major infrastructure projects in the region.

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