

The Politics of Federalism: Oil Royalty Claim of Sabah

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Abstract

The close relationship between the federal government and the state government of Sabah under the leadership of Barisan Nasional (BN) is considered to give the latter an advantage to claim oil royalty higher than five percent. The concept of federalism implemented in this country is the core of the agreement signed between the federal government, Petronas, and the state government of Sabah. This study used primary data obtained through interviews with two politicians and information from the Sabah State Legislative Assembly Statement. It also gathered secondary data from relevant articles and local newspapers pertaining to the issue. The findings revealed that despite the close relationship between the federal government and the Sabah state government, it did not give an advantage for the latter to claim for higher oil royalty.

Keywords: Federal Government, Sabah State Government, Oil, Royalty

INTRODUCTION

In most countries, the petroleum resources are owned by the federal government. Such ownership can affect the size and source of the oil profits earned and allows enforcement by the federal government to obtain oil profits without taxing the oil-producing companies (Ross, 2012 : 88). Oil royalty revenue is one of the major issues commonly associated with the tension between the federal and state governments. In Malaysia, the oil-related issues that occur between the federal and state governments are more focused on oil royalty payments. For instance, some oil-producing states such as Kelantan only receive courtesy payment money from Petronas instead of royalties from oil profits (Zailanni Amit, 2017). Meanwhile, the oil royalty payments for the state of Terengganu were ceased by the federal government following the defeat of the then ruling party during the 1999 General Election (GE) (Mohammad Agus, 2004). A different situation befalls the state of Sarawak whereby the development of oil royalty payment claims is supported by the unification of the government and the state's opposition parties to demand for a higher oil royalty payment of 20 percent from the initial amount of five percent (Suzanne Atar et al., 2018).

Since its establishment on 17 August 1974, Petronas has been responsible for managing Malaysia's petroleum resources and supported by various policies and acts such as the Petroleum Development Act 1974, National Petroleum Policy, National Energy Policy, and National Disposal Policy (Balakrishnan, 2002 : 60). Such establishment serves the purpose of industrialisation like other commercial or profit-oriented companies to ensure that the country can benefit from petroleum profits (Balakrishnan, 2002 : 61). In line with such purpose, the federal government enacted the Petroleum Development Act 1974 aiming to give Petronas exclusive rights and control over the nation's petroleum (Balakrishnan, 2002 : 69).

During his administration era, Musa Aman held the position of Sabah's Barisan Nasional (BN) Chairman and had a close relationship with the federal government. Such close tie was believed to be the main pillar of BN's strong administration in the state (Astro Awani, 29 April 2017). However, it did not stop the BN government under the leadership of Musa Aman from pleading against the oil royalty issue (Astro Awani, 13 July 2014). On his personal accord, Musa Aman invested several efforts to demand for higher oil royalty profits than the amount stipulated in the Petroleum Development Act 1974. It includes instructing the Minister of Special Tasks of Sabah to conduct discussions related to oil royalties with Petronas (News Straits Times, 15 July 2014). He also met with the former Prime Minister, Dato' Sri Mohd Najib bin Tun Abd Razak, to discuss about Sabah's

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oil royalty issue. However, his efforts to claim higher oil profits allegedly failed because all decisions were subject to the federal government (Borneo Today, 31 March 2017).

On 14 June 1976, an agreement was signed between the federal government and Sabah state government, which was then led by Harris Salleh (Daily Express, 7 June 2014). Sabah was the oil-producing state to sign the agreement as it gave exclusive ownership and management authority of the state's oil to the federal government. The then leader of Sabah, Datu Mustapha Datu Harun, refused to cooperate to protect the state's complete independence from being controlled by the federal government (Gale, 1981). The absolute managerial power by the federal government undoubtedly facilitates the implementation of policies and the acquisition of oil profits; however, it causes the issue of inequality in the provision of oil profits to the state government (Brosio, 2003). The agreement between Sabah and the federal government also had an impact on the granting of oil production jurisdiction under Petronas and the payment of five percent oil royalties to the state government (Faisal, 2018). Nevertheless, the five percent oil royalty payment by the federal government was opposed by several political parties in Sabah and the pressure to demand for a higher oil revenue was evidenced mainly during general elections (GE), such as the 1990 GE whereby Joseph Pairin Kitingan demanded 50 percent oil royalty (Jomo & Wee, 2002). The issue of oil royalty persisted despite BN's leadership of the Sabah state government. In 2014, elite members of BN in Sabah demanded 20 percent oil profit (Faisal, 2018). Such demand was propounded by the party's leader, Stephens Donald, who claimed that MA63 had allocated 20 percent of the total oil royalty to the state (Daily Express, 7 June 2014). Nevertheless, the implementation of five percent oil royalty continued during Musa Aman's administration since the signing of the 1976 agreement.

Aside from the demand for higher oil royalty, Sabah, which is the main oil-producing state in the country, also faced the issue of economic development during the administration of Musa Aman. A report by the World Bank stated that Sabah is the poorest state in Malaysia as of 2017 (Borneo Today, 31 July 2017). This indirectly illustrates the failure of Musa Aman's governance to improve Sabah's economic development despite being one of the main oil and gas producers in Malaysia. In fact, the profits from oil royalties are considered non-commensurate with the production revenue and do not provide returns and benefits to the development of Sabah (Jam et al., 2014). The Sabah State Socioeconomic Report in 2017 further denoted that the state's revenue from petroleum royalties was equivalent to RM 1,246.4 million, which was less than the RM 1,606.6 million obtained in 2018.

The background of the oil royalty claim issue in Sabah differs from the situation in Kelantan and Terengganu. This is because the federal government was led by Dato' Sri Mohd Najib bin Tun Abd Razak from BN, which was the same political party that ruled the Sabah state government. The identical political ideology shared between the federal and state governments should serve as an advantage to Sabah, especially in the issue of oil profits and royalty. Therefore, this article aims to explore the impact of the relationship between the federal and state governments towards Sabah has an impact on the demand for higher oil royalties during Musa Aman's administration in Sabah.

RESEARCH METHODS

This study was done involving the use of primary and secondary data. The primary data was collected through structured interviews with two Malaysian politicians and from official statements issued by the Sabah Legislative Assembly. Meanwhile, the secondary data was gathered from articles and local newspapers such as Astro Awani, Borneo Today, Daily Express, Malay Mail, and New Straits Times.

RESULTS AND DISCUSSION

The Background of Relationship Between Sabah and the Federal Government

The relationship between Sabah and the federal government began by revealing the proposed formation of Malaysia, which was the merging of the state of Sabah with the federal government. Tracing the journey of Sabah leaders before the formation of the Federation of Malaysia until Musa Aman witnessed the state of Sabah having a close relationship with leaders and political parties in Malaya, such as Tunku Abdul Rahman from the UMNO party. Such close relationship was the fundamental basis of the federalism system, which gave

advantages to the administration of the Sabah state government with the federal government (Asmady Idris & Suzalie Mohamad, 2014). Initially, there was no clear explanation regarding the combination of the Federation of Malaya, Singapore, and the States of Borneo before 1960 (Aszlan Selamat, 2013). This is supported by Azharudin Mohamed (2012) who explained that the desire to form Malaysia began since 1961. The effort to establish the Federation of Malaysia was implemented in a short time with less than three years of planning. However, the region of Peninsular Malaysia, Borneo, the southern Philippines, and the Spice Islands, which were divided into two large empires after the Treaty of London 1824, made these regions a combination of the Malaysian Region that later became a reference for European officials in the 19th and 20th centuries (Aszlan Selamat, 2013).

The year 1887 witnessed Lord Brassey's proposal to merge the states of Malaya, Singapore, and Borneo (Aszlan Selamat, 2013). Such proposal illustrates the British's support and their plan of future territories under their control, namely Singapore, Brunei, North Borneo, and Sarawak (Azharudin Mohamed, 2012). This formation was seen to give an advantage for the British to form a large colony. The proposal to form one government, namely the amalgamation of Malaya, Brunei, Sabah, and Sarawak, was first voiced by Thio Chan Bee, who was a member of the Legislative Council of Singapore and the Vice President of the Progressive Party. His proposal was supported by Sir Robert Boothby, a Commonwealth Member of Parliament who was visiting Singapore at the time (Aszlan Selamat, 2013). The proposal to establish Malaysia was also voiced by Tunku Abdul Rahman on 27 May 1961 and it received positive support from the Foreign Journalists Association in Singapore, Singapore Prime Minister Lee Kuan Yew, and British Prime Minister Harold MacMillan (Aszlan Selamat, 2013). The establishment of the Federation of Malaysia by including the territories of Borneo and Singapore was a plan by the British. Meanwhile, Tunku Abdul Rahman also voiced similar proposal, namely to create the Commonwealth of Malaysia by including the regions of Borneo and Singapore (Azharudin Mohamed, 2012).

Nevertheless, a different reaction was propounded by the leader of Sabah, Donald Stephens, who was not ready to join Malaysia. This was because he thought that the entry of North Borneo into the Commonwealth of Malaysia would change the state's status from a British colony to a colony of Malaya. There were also negative perceptions on the differences between North Borneo with Malaya and Singapore in the aspects of politics, society, and economic development. These differences and diversity were feared to be eliminated following the merging. In fact, the leaders of Sabah felt that the coalition should follow the will and protect the interests of North Borneo (Azharudin Mohamed, 2012). Donald Stephens's opposition was expressed in the Cobbold Report which explained his stance on forming a federation of Borneo. His position to not join the Federal Government of Malaysia was expressed during Tunku Abdul Rahman's visit to Brunei and Sarawak (Saimin Ginsari & Joseph, 2014). However, the situation changed after the visit of Donald Stephens and seven other committee members to Malaya who admired the development of Malaya. The visit also changed the perception that Sabah would obtain the privileges like those in Malaya. In fact, the merging would improve the living standards of North Borneo, such as education and the economy (Jalil Haji Din, 1978 : 6-7). Additionally, Tun Mustapha, who was the leader of the UPKO party, also supported the merging of North Borneo with the Federation of Malaysia (Muhammad Agus, 2002).

Following the formation of the Federation of Malaysia in 1963, there was tension between the state government of Sabah and the federal government, which was caused by the government of Singapore leaving Malaysia. subsequently, Therefore, the government of Sabah under the leadership of Donald Stephen had called for a review of the state's relationship with the federal government and that the Sabah government could no longer deal with the federal government (Muhammad Agus, 2002). This tense relationship persisted until the State Election (PRN) in 1967, which witnessed the victory of the USNO party that caused UPKO to dissolve. USNO's victory under the leadership of Tun Mustapha did not alter the tense relationship between the state and federal governments. This is because in 1975, Tun Mustapha declared the leaving of Sabah from the federal government as he felt that the state had lost its autonomous power. Furthermore, Sabah under the leadership of Tun Mustapha regretted the merging as the land's wealth was taken more than what the state government perceived (Muhammad Agus, 2002). The tension between the federal government and Sabah under the leadership of Tun Mustapha led to the implementation of foreign policy without consulting the federal

government. Tun Mustapha also refused to sign any oil and gas agreements with Petronas (Muhammad Agus, 2002).

Tun Mustapha's opposition caused the federal government to retract his control over internal security and the special police force. The federal government also established a new political party (i.e., Berjaya) to reduce the political power and influence of Tun Mustapha (Muhammad Agus, 2002). From the administrative aspect, Tun Mustapha implemented independent policies and avoided any ties with the federal government (Yahaya Ismail, 1978 : 64). A similarity existed between the administrations of Donald Stephens and Tun Mustapha namely the opposition to the amount of oil royalty received by the Sabah government. The discovery of oil offshore in Sabah prompted the federal government and Petronas to be interested in oil exploration and development in the state. Therefore, Tun Mustapha stated that the federal government must give a commensurate return to the Sabah state government. He initially demanded for half of the oil sale revenue; however, the request was rejected by Petronas. Tun Mustapha later demanded for ten to twenty percent of oil royalties but it was also denied by Petronas and the federal government which offered only five percent oil royalty to the state government of Sabah (Musli Oli, 2015 : 145). Tun Mustapha was forced to agree to the offer because he received political pressure and threats to withdraw his administrative power over Sabah (Musli Oli, 2015 : 145). This situation also reflects the amount of royalty received by the oil-producing states in this country, namely 12.5 percent, before it was decreased to five percent following the signing of agreement in 1974 due to the change in the distribution method while the remaining amount is taken by Petronas and 45 percent of income tax from Petronas and oil companies (Abdullah Ayub, 1979 : 318-319).

During the 1981 Sabah State Elections, Berjaya won 40 out of 48 seats in the state. The party's open policy led to its good relationship with the federal government, prompting the federal government to allocate RM2 billion for the Third Malaysia Plan. However, the good relationship between the federal government and the state government of Sabah under the leadership of Harris Salleh did not last long. This was due to his failure to focus on the welfare of the people, causing them to opt for a new political party which was Parti Bersatu Sabah (PBS). The defeat of Berjaya enabled PBS to emerge as the governing party of Sabah (Muhammad Agus, 2002). The people of Sabah also claimed that the state's autonomous power decreased during Harris Salleh's administration and there was an increase in dominance from the federal government. The public opinion also stated that the granting of the administration of the Federal Territory of Labuan to the federal government and the unequal sharing of oil exploitation in Sabah had caused anti-federalism to thicken among the people of Sabah (Haji Mohd Hamdan & Mahat Jamal, 2014).

Pairin, who was the leader of PBS, demanded 50 percent of Sabah's oil profits from the federal government. The main essence of his demand was equality of treatment by the federal government to the state government of Sabah (Muhammad Agus, 2001). The administration of Sabah under the PBS party also witnessed renewed tension in the state's relationship with the federal government, which was caused by PBS leaving BN (Muhammad Agus, 2002). Aside from the oil issue, PBS under the leadership of Pairin also demanded for the federal government to resolve several problems involving the state, including the issue of autonomous powers, returning the administration of the Federal Territory of Labuan to the Sabah state government, the settlement of illegal immigrants in Sabah, and the establishment of a local university and a broadcasting station. These demands caused the federal government to accuse PBS of opposing the federal government (Muhammad Agus, 2001). The demand for oil revenue by PBS was also used as a manifesto, which promised a return of 100 percent of oil revenue to Sabah (Puyok, 2011). The tension between the federal government and Sabah under the governance of PBS also saw the reduced allocation of budget from the federal government to the state, with approximately RM2,253 million (Fifth Malaysia Plan, 1986-1990) and RM 2,307 million (Sixth Malaysia Plan, 1991-1995). Such figures were small and differed from those received by Sabah during the UMNO-BN government. The financial allocation from the Federal Government later increased to RM16,908 million in the Ninth Malaysia Plan 2006-2010 (Asmady Idris & Suzalie Mohamad, 2014). Additionally, the rift between the Sabah state government under the PBS party and the federal government led to the entry of UMNO in 1991 (Asmady Idris & Suzalie Mohamad, 2014).

2004 witnessed the second year of Musa Aman's governance in Sabah and the 11th GE of Malaysia. The victory of BN saw an increase of seats in the state; however, such victory was associated with the 'gerrymandering' factor (Liow 2004), which was the electoral region that gave an advantage to the political party, group, or ethnicity that represented BN in the election. BN further secured its winning in the 12th GE in 2008. The victory demonstrated the opposition party's weakness and failure to influence the local population using the issues of oil royalties, expensive goods, local candidates, land ownership, illegal immigrants, and educational assistance (Mat Zin, 2011). Nevertheless, the ruling era of UMNO by Musa Aman happened since 2003 (Sabihah, 2008). It also exhibited the parallel development plan between the federal government and the Sabah government during Musa Aman's administration with the main focus of eradicating poverty. For example, among the efforts by the state government to eliminate poverty were the provision of basic needs by building more public housing and improving water and electricity supply in rural areas as well as generating an economy that could build national income. Economic programs were also created specifically for the poor that involved various sectors such as agriculture, fisheries, farming, small businesses, and human resource development (Mat Zin, 2011).

As stated in BN's manifesto during the 2008 GE, the accord between the federal government and Sabah under the BN government can realise a balanced development between urban and rural areas (Mat Zin, 2011). The federal government also implemented the Sabah Corridor Development program on 29 January 2008 at the Container Port, Sepanggar Bay, Kota Kinabalu as an effort to eradicate poverty and bring development to the people of Sabah (Mat Zin, 2011). Therefore, Musa Aman's administration in Sabah witnessed the victory of BN in the 2008 GE, which showed that the people's mandate was given to the party upon believing on its ability to realise the agenda between Sabah and the federal government (Mat Zin, 2011). BN's victory in Sabah was also due to the absence of a strong opposition party. The opposing PBS party led by Jeffrey Kitingan demanded for the rights of the people of Sabah to be returned, including oil royalty (Chin 2010). Meanwhile, Anwar Ibrahim, who was the leader of Parti Keadilan Rakyat (PKR), highlighted the issue of oil royalty and promised an increase from five to 20 percent oil royalty if the party was given the mandate to govern the country (Chin, 2010). Although there was a good relationship between the federal government and the state government of Sabah, there was an insistence by Sabah BN leaders regarding several issues including the lack of development in Sabah, the proposal to increase Sabah's representation in the federal cabinet, and the increase of five percent oil royalty. This insistence occurred since the 12th GE and continued until the 14th GE (Ramli Dollah et al., 2018).

The continuum of Musa Aman's administration persisted following the victory in the 2013 GE. It demonstrates Sabah's close relationship with the federal government that allowed the implementation of similar policies between the two governments under the ruling of BN. The federal government invested significant efforts to realise the manifesto to gain trust from the people of Sabah. It includes the effort to improve the standard of living and socio-economic development in Sabah and bridge the poverty gap between urban and rural residents with the construction of Pan Borneo from Sematan, Sarawak to Serudung, Sabah (Haji Mohd Hamdan & Mahat Jamal, 2014). BN's manifesto in the 13th GE also stated the federal government's efforts to cultivate more rapid development, such as the Government Transformation Program which focuses on seven key areas involving the people and making Malaysia a developed and high-income nation in line with the 2020 vision (Haji Mohd Hamdan & Mahat Jamal, 2014). From the 2004 GE to the 2013 GE, it can be seen that neither the federal government nor the state government of Sabah stated any discussion or manifesto related to the oil royalty issue. Nonetheless, only the opposition party of Pakatan Rakyat (PR) highlighted the issue in its manifesto by postulating on the 20 percent oil royalty to the Sabah state government and pushing for the formation of a new balanced and fair formula (Haji Mohd Hamdan & Mahat Jamal, 2014). The oil royalty claim was also linked to the improper implementation of the federalism system by the federal government. Nevertheless, every insistence and demand by the opposition parties, such as the demand for higher oil royalty revenue, was successfully addressed by BN by promising to provide continuous development in Sabah (Asmady Idris & Suzalie Mohamad, 2014). During Musa Aman's administration, the federal government's relationship with the state government adopted a federalism system with consent from the majority of the people of Sabah, which resulted in the spirit of federalism. This idea of agreement was based on Gramsci (Asmady Idris & Suzalie Mohamad, 2014).

The federal government's dominance over the Sabah state government was exemplary from 1994 until the era of Musa Aman's administration (Asmady Idris & Suzalie Mohamad, 2014). Such period witnessed the centralised implementation of the federalism system in Malaysia and the strong executive power during the administration of Mahathir Mohamad (Harding & Chin, 2015 : 32). All opposition parties were controlled by the federal government as in the case of PBS. However, during his administration from 2003 to 2018, Musa Aman demanded for higher oil royalty for Sabah through numerous meetings with Najib Razak. The close relationship between the two political figures did not stop Sabah's BN government under the leadership of Musa Aman from working on the oil royalty issue in addition to Musa Aman's personal efforts to solve the issue (Astro Awani, 13 July 2014). Najib Razak's reaction also denoted the federal government's assurance to the people of Sabah that the state's revenue from the oil and gas industry will continue to increase in the future (Malaysiakini, 15 November 2014). The federal government under Najib Razak's administration also attempted to resolve the oil royalty issue in the state of Sabah by establishing a special committee to discuss financial rights from oil and gas royalties, which were last paid to the state in 1974 (Astro Awani, 16 July 2015).

The Background of Oil Royalties in the State of Sabah

The Sabah state government under Harris Salleh's administration signed an agreement with the federal government on 14 June 1976 (Daily Express, 7 June 2014). Sabah was the last state to agree to sign the agreement between the federal government and state governments (Gale 1981). The agreement was aligned with the Petroleum Development Act 1974 (Act 144), which authorises Petronas to explore and unearth oil resources in the state. Since the signing of the agreement, oil has been found in several areas namely South Furious (1974 - located 130 km north of Kota Kinabalu), Erb South (1975), St. Joseph (1975), Barton (1976), Ketam (1977), alongside Lokan, South West Emerald, and South East Collins (1979 to 1981). The Samarang oil well contributed the highest production in 1975 and reached an average production level of up to 70,000 barrels per day until 1979 (The Straits Times, 1973; AE/18/3/ 1985; The Business Times, 1977, p. 12).

Before signing the agreement with the federal government in 1976, the Sabah state government had issued the Oil Prospecting License that authorised Esso Exploration Malaysia Inc. to conduct petroleum exploration activities, including geological, geophysical, and topographical research activities, for 10 years which started on 1 November 1965 (Amy Azuan & Yew Meng Lai, 2022). On 2 April 1969, the Chief Minister of Sabah signed the Oil Prospecting License (Marine Areas) with Oceanic Exploration and Development Corporation, allowing the company to conduct oil exploration in the state of Sabah for 10 years until 1979 (Amy Azuan & Yew Meng Lai, 2022). However, there was a confusion of jurisdiction in managing Sabah's oil resources when the federal government enacted three new acts, namely the Continental Shelf Act 1966, Petroleum Mining Act 1966, and Emergency Ordinance (Important Order) No. 7 1969 (Amy Azuan & Yew Meng Lai, 2022). This confusion involved the limitation of power over Sabah waters either under the state government or the federal government. However, Article 1 (3) and 2 of the Federal Constitution states that the boundaries of a state cannot be changed without the consent of the State Legislative Assembly and the Council of Rulers (Amy Azuan & Yew Meng Lai, 2022). Previously, the fiscal system for petroleum products implemented by the Malaysian government utilised the Concession System. According to Mehden and Troner (2007), the Concession System was signed between Shell and the Malaysian government in the 1960s after the increase in gas and oil production from the offshore and coastal areas of Sarawak and Sabah. This situation caused more oil companies from abroad, such as Elf, Aquitaine, Oceanic, and Telseki, to agree to use the system for the oil exploration and production processes in this country. The main components of this system are the taxes and royalties imposed on oil companies and the revenue collected by the state government (Lee, 2013; Razalli, 2005). This system is also regulated and provided for under state enactment. The operation of this system is conducted through a lease given exclusive rights by the landowner to the oil-producing company (Lee, 2013).

However, the Concession System was later changed to the Production Sharing System after the implementation of the Petroleum Development Act 1974 whereby the state government's control and ownership of oil and gas resources were transferred to Petronas (Razalli, 2005). This Act also provided for the implementation of the Production Sharing System and abolished the Concession System (Lee, 2013). The implementation of this new system resulted in both the federal government and foreign oil-producing companies earning 10 percent of the

royalties while the state government only entitles to five percent of the royalties (Lee, 2013). The provision of this Act also enables the federal government to control and obtain a higher amount of oil revenue compared to the Concession System that gave full autonomy to oil-producing companies (Mehden & Troner, 2007). However, changes in the fiscal system for petroleum resources in Malaysia, namely the implementation of the Production Sharing System since 1976, have resulted in the state government's loss of power, control, and ownership over oil and gas to Petronas (Lee, 2013; Razalli, 2005).

Concerning the situation in Sabah, the Concession System was in use since 1897 by the British companies Messrs Wallace & Co. and BNBC for the purpose of oil exploration in Klias Peninsula, Lambidan Island, and Kudat Peninsula (Amy Azuan & Yew Meng Lai, 2022). The Concession System gave advantages to Sabah as the state government had royalty rights to oil found within its land under the provision of the state enactment. The implementation of such system also resulted in the absence of stricter terms and conditions for oil exploration in Sabah (Nor Aziah et al., 2014). However, after the establishment of Petronas under the Petroleum Development Act 1974, the Concession System was replaced by the Production Sharing System (Amy Azuan & Yew Meng Lai, 2022), causing the Sabah state government to pay royalties to the federal government (Amy Azuan & Yew Meng Lai, 2022).

FINDINGS

BN was the political party that controlled the administration of the Sabah state government under Musa Aman and the federal government led by Najib Razak. The similarity in ideology and political goals between these BN-led governments established a close tie and benefits between the two. This is because kinship politics prioritise the interests of the closest individuals, such as friends and social networks, across all matters related to the social, economic, and political (Budi Anto et al., 2008). The close relationship between the federal and state governments under BN had limitations in intervention and influence because there existed a division of powers in the Federal Constitution. For example, aspects such as development, roads, education, and medicine are under the jurisdiction of the federal government while the state government has jurisdiction in land and natural resources (2023: Interview with the former Prime Minister). The division of power between the federal and state governments was in reference with the Ninth Schedule - List of Legislation, the Federal Constitution lists federal, state, and joint jurisdictions.

The dominance of a political party (i.e., BN) between the federal and state governments gave advantages and facilitated negotiations for both parties. Nevertheless, the affairs between both governments would be complicated if they were administered by different political parties (2023: Interview with the former Prime Minister). This situation occurred in Kelantan as evidenced by the ideological differences between the state government (ruled by the opposition party) and the federal government (ruled by BN), causing the former to not receive oil royalties (Zailanni Amit, 2017). Leaders also play an important role in determining the direction of the relationship between the state and federal governments. For example, the Prime Minister's responsibility should not only focus on Sabah but also to other states in the country (2023: Interview with the former Prime Minister). Furthermore, Peninsular Malaysia and the states of Sabah and Sarawak are not considered a region but rather part of the states found in Malaysia (2023: Interview with the former Prime Minister).

The close relationship between the state government of Sabah and the federal government does not cause injustice to the distribution of oil profits to other states in Malaysia. This is because equality is key to the distribution of oil resources in this country. The formula presented by Rahman Yaakob benefits not only oil-producing states but also those without such resource. This can explain the main purpose of forming a federation that equally allows non-oil-producing states to experience the wealth of such resource. Similar concept applies to other oil profits, such as palm oil, benefitting states without palm oil plantations. This is the benefit of an allied country (2023: Interview with the former Minister of Finance).

The ideological similarity of political parties and the close relationship between the federal and state governments do not give the state government an advantage to obtain higher royalty income, such as the 20 percent oil royalty for Sabah as demanded by Musa Aman in 2016 (Sabah State Assembly, 2016. Statement by the Sabah State Assembly. 102. First Meeting of the Fourth Term of the Fourteenth Sabah State Legislative Assembly). This is because the 20 percent demand was considered too high (2023: Interview with the former

Prime Minister). Despite only receiving five percent of oil royalty, the Sabah state government still receives special assistance from the federal government. The good relationship between the two governments under BN's leadership had an impact on the development and improvement of life in Sabah (Sabah State Assembly, 2004. Statement by the Sabah State Assembly. 12. Third Meeting of the First Term of the Twelfth Sabah State Assembly). Such assistance allows the state government to develop infrastructure in Sabah (2023: Interview with the former Prime Minister). It further highlights the importance of Petronas in managing the governance of petroleum affairs in Sabah, which reduces the state government's burden of having to bear the high cost of managing oil resources on its own (2023: Interview with the former Prime Minister).

CONCLUSION

The concept of federalism is a framework between the federal government and the state government of Sabah, which affects the oil royalty issue in the latter. The close relationship between the two governments did not prevent Musa Aman from demanding a higher oil royalty from five to 20 percent. However, such close tie did not stand as an advantage for Sabah because the demand for 20 percent oil royalty was considered too high. The findings of this study explain the background of the Sabah state government's relationship with the federal government from before independence until Musa Aman's administration era. The close relationship between the leaders of Sabah and the federal government facilitated the implementation of policies as one united country. Although there was resistance and pressure by Sabah leaders such as Donald Stephen, Tun Mustapha, and Jeffrey Kitingan who demanded justice and equality from the federal government to resolve some issues involving Sabah, positive differences were seen during the administration of Musa Aman and Najib Razak. This close relationship was clearly shown by the state and federal governments to benefit both parties. Musa Aman also demanded for a higher oil royalty of 20 percent from the federal government, although it was later denied. This study also denoted that although the federal government and the state government of Sabah were administered by the same political party (i.e., BN), it did not give an advantage for the latter to obtain oil royalty revenue of more than five percent.

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