

Reversal of Fortune: Thailand's Oil and Gas Sector

Michael Barron

SUMMARY

Challenge	Building a coalition for increased transparency in the energy sector (Precept 11 of the National Resource Charter ¹).
Country and period of focus	Thailand, 2013-2016
Challenge in country	Mistrust, political divide and lack of information hinders decision making in the oil and gas sector leading to declining investment.
Core decisions	Companies disclose information on economic contributions of their activities and advocate for increased transparency through the Extractives Industries Transparency Initiative (EITI).
Implications of decisions	A shared understanding of the challenges facing the energy sector could help build support for new licensing rounds and encourage further investment in the sector.
Did it work?	The government is yet to commit to EITI or announce new licensing round.
Lessons learned	<p>Companies can benefit from greater transparency and greater citizen understanding of the oil sector to promote further investment.</p> <p>Companies can play an important role in advocating joining EITI.</p> <p>The government needs to support the process of increased transparency in order to encourage more investment in the future.</p>

ABOUT THE SERIES

This is one of a series of case studies that illustrates the principles of the Natural Resource Charter. The charter is a tool used by governments and societies seeking to better harness the opportunities created by extractive resources.

¹ Natural Resource Charter <http://www.resourcegovernance.org/approach/natural-resource-charter>

THE CHALLENGE

Thailand has enjoyed extensive economic and social development since the mid-1980s. In the years between 1985 and 1996, the country had the fastest growing economy in the world.² Thailand is now a middle-income country with GDP per capita in 2013 estimated at US \$9,900,³ and it ranks highly in the UN's Human Development Index.⁴ Access to low cost domestic supplies of oil and gas have played an important role in the country's economic and social development. Furthermore, Thailand has developed a diversified economy across manufacturing, tourism and agriculture, allowing it to escape the resource curse.

Proven reserves of oil and natural gas have peaked, oil in 2004 and natural gas in 2006. (See figures 1 and 2.)⁵ Thailand already relies on imports of both oil and natural gas to meet its needs and faces the prospect of increasing its reliance on imports. Higher imports would push up energy costs and risk undermining the country's economic competitiveness. The country has already experienced several years of slow growth as a result of internal political turmoil, severe flooding in 2011 and the global recession.

Despite the immediate challenge to energy security, exploration for more oil and gas resources in Thailand has stalled and investment to maintain production is also at risk of a standstill. There have been no new licensing rounds since 2008. Thailand has repeatedly delayed the next license round (the 21st) which was initially set for 2013. Such investment is needed to discover and develop new resources to boost reserves, maintain production and limit the need for imports.

Access to potential resources is also restricted due to Thailand's border dispute with neighboring Cambodia. The two countries' competing claims over their maritime border in the Gulf of Thailand has prevented exploration and production in the disputed waters (the "overlapping claims area"). This area adjoins Thailand's producing offshore oil and gas fields and is thought to possess similar geology, making it highly prospective. An agreement between Thailand and Cambodia would allow for the exploration and development of hydrocarbon resources to the benefit of both countries and their respective economies. A higher level of transparency in the oil and gas sector in Thailand would allow the government to demonstrate to a highly skeptical public that any agreement reached between the two countries was both equitable and in Thailand's best interests.

Investment to extend production from existing licensed concessions is also under threat. Many of these licenses are scheduled to expire in the period 2021-23. The licenses have already been granted a ten-year extension under the terms of Thailand's Petroleum Act, however, the act does not have provisions for more than one extension. In many cases, the concessions contain reserves that will support production beyond the expiry date. While that date is at least six years away, decisions on investment to maintain production have to be made in the next one to two years in order to be economically viable. This investment is only likely to go ahead if there is certainty about an extension which would require an amendment to the act. The alternatives are either declining production or short-term measures to maximize production before the expiry date. This would be at the risk of damaging the reservoir's ability to maintain long-term production.

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2 Economy section at <http://en.wikipedia.org/wiki/Thailand>

3 Economy section at <https://www.cia.gov/library/publications/the-world-factbook/geos/th.html>

4 Table 1, p160 at <http://hdr.undp.org/sites/default/files/hdr14-report-en-1.pdf>

5 EIA Thailand Country information <http://www.eia.gov/countries/country-data.cfm?fips=TH>

In light of the economic importance of domestic oil and gas production, it is surprising that the Thai government has allowed the delay in staging the 21st license round and been slow to legislate for license extension. The situation is even more surprising given the government's high level of experience in the sector and strong involvement. Decision-making in the oil and gas sector has fallen victim to Thailand's highly charged and divisive politics, contributing to widespread popular mistrust of the sector.

Thailand has been producing oil since the 1920s and has encouraged foreign investment since the mid-1950s. A dedicated government department, the Department of Mineral Fuels, has been running since the early 1970s. The government has a direct interest in oil and gas exploration and production through PTT Exploration and Production Public Company (PTTEP), a subsidiary of the state-owned oil company PTT. PTTEP operates many of the producing fields with international oil companies as partners.

There is a high level of distrust of the oil and gas industry among the public, fueled by a lack of information and understanding.⁶ A popular opinion is that Thailand has far more oil and gas resources than is publicly known, and furthermore, the economy does not get full value from the exploitation of oil and gas but rather, vested interests in the country and international companies benefit disproportionately. There is also a concern about PTT's dominant position in the sector, especially in the downstream provision of oil products to retail and business customers. Finally, there has been opposition to operations in the energy sector. A group of fishermen, for example, protested about offshore activities, and onshore protests have been in relation to building new facilities.⁷

POLITICS AND MISTRUST

In part, suspicion of the oil and gas sector reflects deep divisions in Thai society. These divisions sparked military coups in 2006 and 2014, first against the government of Prime Minister Thaksin Shinawatra and then against the government led by his sister, Yingluck Shinawatra.

Opponents of Thaksin, his family and his supporters suspect widespread corruption in the energy sector and are deeply suspicious of any actions, particularly with regard to the economy that pro-Thaksin governments undertake. This deep suspicion is mutual. Thaksin's supporters are equally suspicious of economic measures taken when the military or its supporters are in government. This mutual suspicion has served to limit strategic decision-making in many sectors of the Thai economy, including the oil and gas sector, and is also a cause for the lack of agreement with Cambodia over the OCA.

The political fissures in Thailand only explain part of the misunderstandings and perceptions that surround the country's oil and gas sector. The lack of attention to public engagement on energy issues by successive governments has also been a contributing factor. While the government publishes a great deal of information on the sector, it has not focused on communicating these outputs effectively to the public and intermediaries, such as the media. Information published includes sales figures by field and royalty paid on a monthly basis.⁸ Historically, there has also

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6 "Thailand: Protesters Want Oil Back for Thai People", Centre for Research on Globalization, (November, 2013) <http://www.globalresearch.ca/thailand-protesters-want-oil-back-for-thai-people/5359814>

7 "Villagers in Northeast Thailand's long fight against oil drilling", Mekong Commons, (November 2015) <http://www.mekongcommons.org/villagers-in-northeast-thailands-long-fight-against-oil-drilling/>

8 www.dmf.go.th

been a lack of public consultation on energy policy and major initiatives. The result is that myths have emerged regarding the sector, including the perception that Thailand has plentiful reserves of oil and gas. Reserves have declined due to lack of exploration; in fact, Thailand's proved, possible and probable reserves of crude oil represent about five years of production at current rates. The same measure of natural gas reserves represents around 13 years of production.

There is also a myth in society that the level of government take from oil and gas production is low and therefore the economy is not getting an equitable deal from the sector. In fact, the level of government take from the sector averages around 67 percent compared to a global average of 58 percent. The average for Thailand is lower than the average for the rest of South East Asia (74 percent), yet this is due to Thailand passing peak production and the smaller size of typical fields.⁹

WHAT DID THE COUNTRY DO?

As noted above, Thailand has been open to foreign investment in its upstream oil and gas sector since the mid-1950s. Today, there is a mix of supermajors, majors and smaller independent foreign companies active in Thailand. These include Chevron (US), Total (France), BG Group (UK) and Salamander (UK). In the past, BP, Shell and Premier have also been active in the country. Most foreign operators active in Thailand will be obliged to report their tax payments in Thailand either under European Union (EU) law or United States (US) law. EU-based companies will publish the first data (2015 data) in 2016, yet the reports will provide only a partial picture of the tax payments in Thailand and may increase demands for transparency from all companies active in the sector.

All parts of the oil industry — foreign and domestic, private and state-owned, downstream and upstream — come together in the industry association, the Petroleum Institute of Thailand (PTIT). The industry has pressed the government for action on both the delayed license round and the license extension issue for the past two years. In that time, some of the companies active in Thailand have recognized the extent of public mistrust of the sector and that the myths and misconceptions that have developed act as brake on government decision-making. The same companies also acknowledge that individually they cannot dispel these myths, rather collective action by both industry and government is required. The companies also appreciate that they can do little to combat the deep political divisions in the country and, in any case, it would not be appropriate to intervene in domestic politics. One factor the companies can influence is the reputation of the sector and in particular they can help improve public understanding of the sector.

The international oil companies operating in Thailand voluntarily disclose some data. The most comprehensive is Salamander who publish data on payments to government, goods and services and social payments on an annual basis.¹⁰ Chevron and BG have also disclosed data on overall economic contribution with BG claiming to have contributed US \$2 billion in the past decade.¹¹ Chevron cites an independent study that shows the company and its suppliers contributed US \$9.3 billion to the Thai economy in 2012 (equivalent to around 2 percent of GDP). Chevron also disclosed that in the period 1981-2013, its royalty payments totaled US \$9 billion.¹²

9 "Thailand's upstream future at risk", Wood Mackenzie <http://www.woodmac.com/public/media-centre/content/12525337>

10 <http://www.salamander-energy.com/corporate-responsibility/local-development-data>

11 <http://www.bg-group.com/246/where-we-work/thailand/>

12 <http://www.chevron.com/documents/pdf/ThailandFactSheet.pdf>

In late 2013, some companies came to the conclusion that part of the solution to overcoming the public mistrust of the sector was for Thailand to join the Extractive Industries Transparency Initiative (EITI). This initiative would bring together companies, government and civil society organizations in a framework to foster dialogue on the issues and could lead to greater degrees of openness about the sector through the publication of information. In turn, such openness could prompt a more informed public debate and encourage higher levels of trust. Crucially, the information that would be disclosed under EITI would be subject to independent, third party review and so overcome any allegations of bias by either side in the suspicion-ridden public political debate.

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In early 2014, the subject of EITI candidacy was raised at a PTIT meeting attended by industry representatives. A series of consultations were then held among the companies and then with government representatives and opinion formers. In May 2014, around the time of the latest coup, the then energy minister Dr Piyasvasti published a manifesto for reforms in the Thai energy sector that specifically included a call for Thailand to join EITI. On 6 June 2014, the head of the International Secretariat of EITI, Jonas Moberg, briefed the PTIT Council (a combination of government and industry representatives) on EITI. Thai representatives attended, as observers, the EITI Board meeting in Yangon, Myanmar in October 2014.

The result is that EITI is now firmly on the government's agenda and part of the discourse concerning energy reforms in the country. Until the companies introduced the idea of EITI candidacy, Thailand had almost no contact with the EITI. This was despite the initiative having made substantial progress in Southeast Asia with Indonesia, Myanmar, Papua New Guinea, Philippines and Timor-Leste implementing the initiative as candidate or compliant countries.

CIVIL SOCIETY INVOLVEMENT

Thai civil society organizations have been vocal in raising concerns about the contribution of the oil and gas sector to the Thai economy. Their concerns focus on the role of PTT, the level of government take and cost of oil products for consumers. Some civil society organizations have also focused on local grievances concerning construction of facilities or local operations. Civil society organizations that campaign on energy issues tend to be small and dominated by a prominent person. There is little coordination between different organizations or with international civil society organizations.

Companies have taken the lead in advocating Thailand's potential EITI candidacy, and to date there has been little engagement with civil society. The exception has been the engagement with a board member of Transparency International Thailand.

LESSONS FOR OTHER COUNTRIES

Thailand's experience provides an example of why public engagement and transparency by all major stakeholders is needed in the extractive sector. In the case of Thailand, lack of attention to public engagement and openness has risked the sustainability of the oil and gas sector. The slowdown in investment in the sector has constrained the sector's contribution to the economy and added costs through the need to import oil and gas at an earlier date than was anticipated. Sustained investment in exploration and production could have added years to peak reserves and the production plateau. The divisions in national politics has contributed to stagnation in policy-making and implementation. Companies, particularly international ones, have rightly steered clear of becoming entangled in Thai domestic politics. These companies, along with other stakeholders do have important roles to play in creating the solution through greater openness.

For companies, a higher level of openness at an earlier stage could have prevented the emergence of misconceptions about the sector that damaged the industry's reputation. Reforms to the sector to allow further exploration and the extension of production licences would have created opportunities at an earlier date and reduced a significant source of uncertainty to operations in the country. In addition, increased public awareness of the contribution of the industry to the Thai economy would avoid reforms such as licence extension becoming politically controversial and allow a well-informed debate on the terms under which such reforms should take place.

For civil society organizations, the key lesson to emerge from Thailand's experience is the advantage to be gained from drawing on regional and international experience and trends. Local Thai civil society organizations have had little engagement with the global transparency agenda and initiatives such as EITI. Harnessing this agenda and links with regional or international organizations would have strengthened their calls for change. Moreover it may have allowed organizations to demonstrate a constructive and coherent contribution to reforming the oil and gas sector rather than just being vocal obstructers.

Overall, Thailand's experience highlights the inability of one set of stakeholders, whether it is industry, government or civil society, to bring about more openness on its own. In Thailand's case, companies, which have started the process, have to make the argument with both their peers and the government and find a channel to engage with civil society. The Thai government publishes production and sales data on the sector, but without public engagement and well-informed intermediaries who can interpret the data, there is no benefit to the Thai economy and society.

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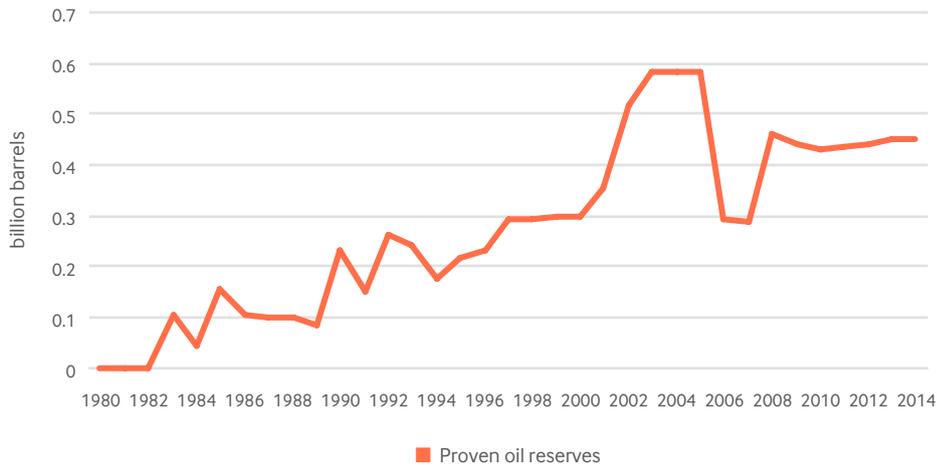


Figure 1. Thailand's proven oil reserves (1980-2014)

Source: EIA

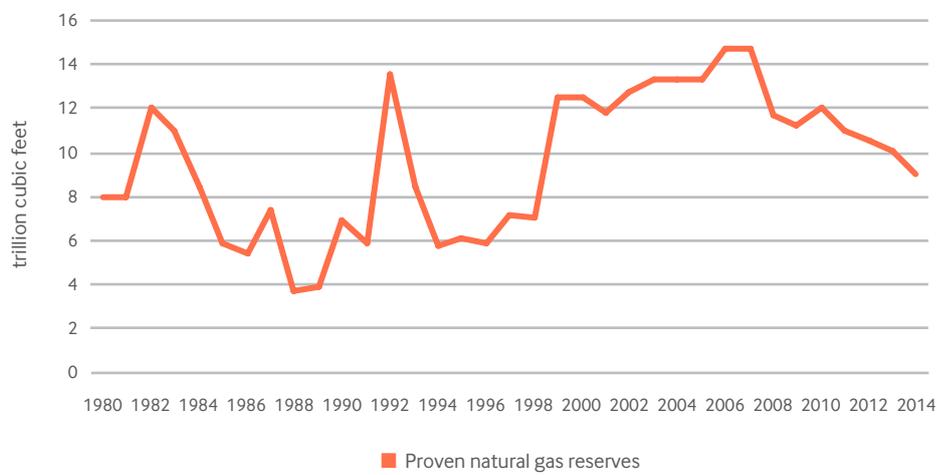


Figure 2. Thailand's proven natural gas reserves (1980-2014)

Source: EIA

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