

PETROLEUM IN THAILAND 2004

1. THAILAND AND SINGAPORE "ROAD TO PROSPERITY?"

Thailand is pressurizing to cement its ambitious plans to take of Singapore position as Asia's center in commerce and fuel transport via the construction of a land bridge between the Indian Ocean and the Gulf of Thailand. It is a strategic move, according to its Thailand planners; it will reduce costs and improve storage security to North East Asians, especially China.

The plan has the backing of the Thailand government and better still, it has the backing of China, which has a great desire to fine better and shorter routes for its growing economic needs.

As a first step to cement Thailand's state energy business, PTT PCL on the 29th of January, a new marketing center was open in the port of Sriracha, on the east coasts of Thailand south of Bangkok. At the centers inauguration the Prime Minister Thaksin assured that his country would dominate Oil in Asia in the next 5 years.

In April the government planned to start work on what it calls the Strategic Energy Land Bridge, which includes 2 terminals for deep waters, storage deposits and a 240-kilometer oil pipeline to carry crude oil from Thailand's South isthmus, Andaman Sea to the Gulf of Thailand. The plans anticipate that the bridge will save close to 2 dollars on the price of the barrel to the main crude oil importers. In fact, currently Asian consumers pay around 2 dollars more per barrel in relation to European countries due to the long routes.

Asia has dreamed of an East-West distribution route of energy resources that avoid the congested and dangerous route across the straits of Malacca. But the century plan to cut a channel across South Thailand through the Isthmus of Kra, never materialized due to its prohibitory costs. The new bridge though more modest is justified since it will save journey time and offers a securer alternative to the Malacca cross.

Oil security has become China's, Japan's and South Korea's priority in these recent years. As an indicator of this concern, the Chinese president Hu Jintao, recently

commented that “the Malacca dilemma” is an important issue in relation to China's energetic security. “Some powers (referring to the United States) have abusively become involved and tried to control navigation across the straits”, said Hu in a meeting of Communist Party leaders last December.

In fact China's state cooperation, Sinochem – the main countries importer -, has indicated its desire to invest a lot of money in Thailand's energy bridge, which promises to cut the journey from the Middle East to Asia in more than 1.000 kilometers. Sinochem has also joined PTT to operate a commercial gas and oil business, the Chinese giant will acquire 37,5% of its actions in Thai Oil, Thailand's largest refinery and its most indebted.

Since China announced its backing, the Sriracha Centre registered more than 1.000 million dollars worth of contract for 30.5 million barrels of crude oil and refined products.

In the mean time the United States Unocal, in February of this year also announced that it will invest close to 400 million dollars in the Thailand's energy bridge. Its particular interest lies in doubling Thailand's current oil production. ExxonMobil and Shell, though both already have large investments in Singapore. Itochu and Mitsui from Japan are still close to deciding if to invest or not in Thailand's ambitious plan.

For the main Asian consumers and importers, including China, Japan and South Korea, Thailand's plan is extremely attractive, especially in relation to security. Close to 70% of Oil that goes to this region crosses the straits of Malacca, with more than 60.000 boats crossing it each year, three times more than the Suez Channel and 5 times more than the Panama Channel. The growing insecurity in Sumatra where the Indonesian government is facing the Aceh resistance, the increase of pirate attacks in the straits and the increased terrorists threats have lead to believe that the Thailand alternative is the best option (last year the more than 445 pirate incidents took place are an indicator).

In the face of this and especially the lack of reserves and storage capacity, especially in China (only for 20 days of consumption), leads to think that the saving in time will also be another important point to consider.

But some Oil company executives are more skeptical and say that even if a bridge is constructed many firms will not abandon Singapore, the largest hydrocarbon marketing point in Asia. Mainly due to the state system that the Thailand Center represents as well as the possibility of resistance by local groups since the project would be close to the main tourists centers, Phuket in Andaman Sea and Koh Samui in the Golf of Thailand. On the other hand, Thailand's legal and financial systems, suffer frequent and constant delays, lack of transparency and weak laws in the face of financial problems.

Thailand's plans have had difficulty diplomatically with the government of Singapore due to the possible economic impact to this small insular country. In

fact, in 2002 Singapore was the center for 103.000 million dollars of crude oil commerce and 96.000 million in relation to commercial agreements of derivatives and financial agreements. Since Shell in 1961 was the first oil constructed installation, Singapore has become the strategic business center become the third world commercial Oil center, following London and New York. But Singapore in the last years has lost a large part of its business. This is mainly due to the limited territory of the nation and its high costs, making many oil companies and petrochemical producers consider changing to another country. In Singapore 56 international commerce's that were thinking in going to Thailand, since as well as the transport facilities the government is offering reductions on tax from 30% to 10%, the same as Singapore. In the face of this, this last year has offered reductions of 5% and other measures such as the investment of 840 million dollars to install a satellite navigation monitoring system as a measure of security.

Due to all the critics, the Minister of Energy Prommin Leertsuridej said that Thailand has geographical advantages compared to other countries in the region. It estimated that between 22 and 25 million barrels of crude oil that Asia imports every day, will double toward 2020, mainly due to the growth of China and we will be capable of being a bridge between neighboring providers.

In summary, since Thailand has not yet become the winner to gain clients, the price of oil continues to be set by Singapore that offers oil companies better financial and legal systems or for the management of risks.

Source: RESISTANCE No. 46 OILWATCH NETWORK BULLETIN.-June 2004