Thailand's upstream future at risk

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THAILAND'S recent production growth has been offset by weak exploration performance that could see commercial reserves exhausted by 2023, leaving the nation exposed to more costly energy imports.

But suggestions that the government must boost its share of oil and gas profits could make the situation worse.

The southeast Asian nation has replaced less than 25% of the 2.3 billion barrels of oil equivalent (boe) reserves produced in the last decade.

Making matters worse, Thailand had to delay its 21st licensing round, originally set for 2012, due to staunch public opposition to exploration drilling in waters off tourist areas and public demand that the kingdom receives a larger share of the country's oil and gas revenue.

The new military-led government has said that it intends to launch the new round, the first since 2007, in February next year, but fiscal terms are still being discussed.

Investor uncertainty

Yet calls for tougher fiscal policies, which may very well create uncertainty and deter investors, could see the weak supply outlook deteriorate further for the already mature petroleum province, warned energy research firm Wood Mackenzie.

Over the next nine years, Thailand's upstream sector will generate $125 billion in revenue, but to boost recovery and maximise the benefit of its oil and gas resources beyond this, there is a need for Thailand to encourage investments into the upstream sector, Craig McMahon, an Asian upstream specialist at Wood Mackenzie said.

Under Thailand's present fiscal terms – it operates a concession system – the government take averages 67% of oil and gas profits. This is more than the global average share of 58%.

There have been comparisons made with fiscal terms on offer in other southeast Asian countries, but these comparisons must also consider a country's remaining prospectivity.

Although the Thai government's tax take is less than the South East Asian average of 74%, Thailand's average discovery size is the smallest in the region at only 7 million boe. Across the Asean region, the average discovery size from 2004-13 was 58 million boe.

If Thailand is to remain attractive to investors, Wood Mackenzie does not believe the country is in a position to increase its share of oil and gas profits.

Aside from the increased government take, there have been suggestions that Thailand move from the concession system it uses at present, to production sharing contracts (PSC), but McMahon believes that will be counterproductive.

Historical evidence shows Thailand's regulatory regime to be one of the most efficient in the region. But the introduction of PSCs could add more regulatory burdens, lengthening the time needed to bring new fields on stream.

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Traditionally, it takes an average of only four years from discovery to production in Thailand. This compares favourably to an average of eight and nine years in Malaysia and Indonesia, respectively. Despite the lack of material new discoveries between 2004 and 2014, output from Thailand has consistently increased in that timeframe demonstrating the effectiveness of the present system.

Production rose 47% from 530,000 barrels of oil equivalent per day (boe/d) in 2004 to 780,000 boe/d in 2014. But output from existing oil and gas developments is expected to peak at 840,000 boe/d in 2018, Wood Mackenzie estimates.

The consultancy added that any fiscal changes must take into consideration the over all attractiveness of the upstream sector.

After 2023, Thailand risks a rapidly declining production outlook. At the same time, concessions expiring in 2023 account for more than 65% of Thailand's current production.

McMahon said: "While the government is coming under pressure to make fiscal terms tougher and increase its share of profits, if Thailand is to attract the necessary investment to sustain production, the priority should not be to create more barriers for investors."

Instead, he said, Thailand needs to push ahead with the delayed 21st licensing round to ensure further acreage is fully explored and offer clarity on extensions of the expiring concessions.

If clear guidelines are offered on the future of expiring licenses, the country could stimulate new investment in mature fields, potentially increasing recovery of their remaining resources, he added.

The proposed licensing round would offer 29 blocks, 23 of which are onshore and six offshore, in Gulf of Thailand.

The blocks on offer will allow Thailand to tap an estimated volume of 1 trillion to 5 trillion cubic feet of natural gas and between 20 million to 50 million barrels of oil, according to energy ministry estimates.

Meanwhile, if Bangkok can settle the controversial Overlapping Claim Area (OCA) dispute with Cambodia, Thailand's gas reserves could be lifted by as much as 65%, say analysts at Macquarie Research.

Further reserves

Using guidance from a regional petroleum society and comments from majors operating in nearby waters, the investment bank estimates there could be another 1.4 billion to 3.6 billion boe of reserves in the OCA.

The OCA cuts through the prolific Pattani basin in the Gulf of Thailand, which has so far produced 2.5 billion boe – about 57% of Thailand's production.

While, the new government will get another chance to try to resolve the 40-year old territorial dispute – it has already sent its foreign minister to Cambodia to revisit the issue – the challenges will be huge.

Aside from the complexities of negotiating the border dispute, which may necessitate agreement from Vietnam, there are other significant obstacles to overcome, including dual licensing, revenue sharing and fiscal systems.

But the opportunity is enormous. Development of the OCA would help replace rising liquefied natural gas imports, which are roughly twice the price of Thailand's domestic gas output. ●