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## The High Price of Oil and the Search for Energy Security

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In mid-2005, the government decided to allow the diesel price to float freely. Higher prices have, however, had little effect on energy saving. Thailand must find alternative energy sources.



### Responding to high oil prices with subsidies

In 2005, Thailand's energy situation reached a crisis, with the population bearing the costs of price setting by the government. Oil prices began reaching record levels in starting in late 2003. At that time, the international price of crude oil rose from 1,200 baht per barrel (1 Barrel = 159 Liters) to 2,000 baht per barrel on 10 January 2004. In response, the Thai government decided to freeze the price of gasoline and diesel. The cost of this policy, which encouraged Thai people to over-use oil, was 80 million baht per day. The government was criticized for distorting the market, discouraging energy saving, delaying efforts to find a durable solution, and running up enormous debts.

On 21 October 2004 the government decided to allow the price of gasoline to float freely, but to continue fixing the price of diesel. The issue became highly political, and the government was accused of buying popularity while hiding the true hosts of the subsidy. Sixteen days after the general election on 6 February 2005, the government began increasing diesel prices. On March 24, 2005, the price rose by 3 baht per liter in a single day.

According to Mr. Sophon Suphaphong, a senator and former executive of the Bang Jak Petroleum Public Company Limited, an unnamed party with 2,000 million liters of stored diesel illegitimately gained 6,000 million baht out of the price rise.

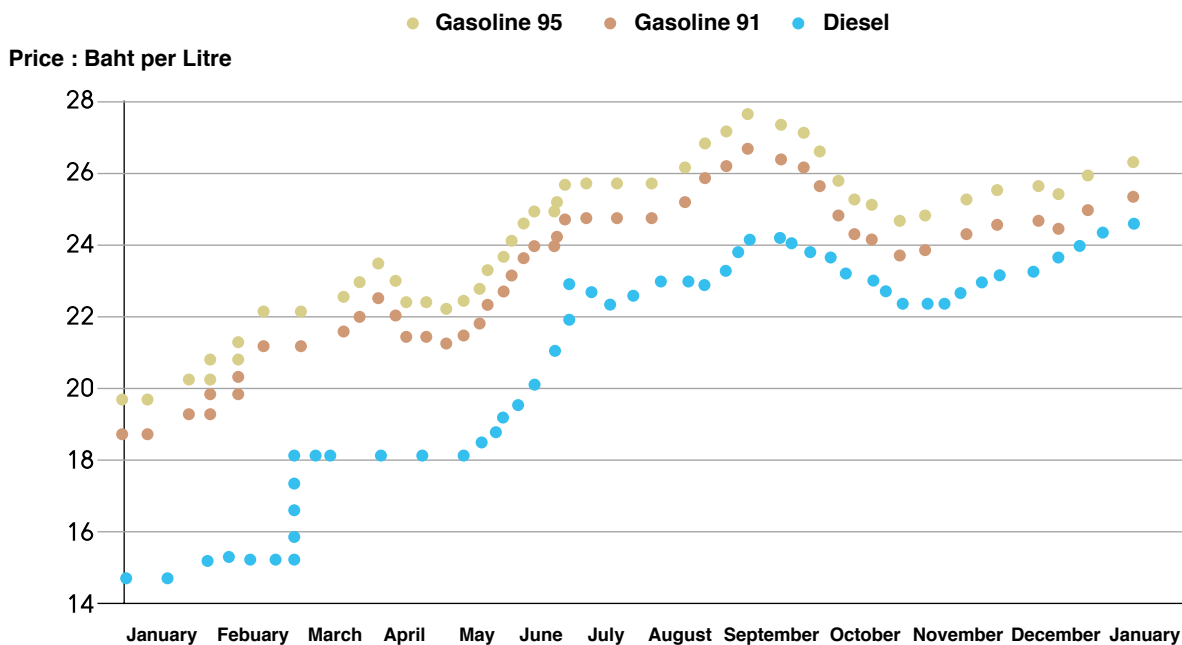
Mr. Suphaphong also cited the case as an example of the costs of privatization. He claimed that, after privatization, the PTT Public Company Limited, which has almost half of the Thai market, focused entirely on benefiting shareholders, to the detriment of consumers. These claims were, however, denied by all the major actors, including the Prime Minister, the Minister of Energy, and the major oil companies including PTT. The issue was eventually forgotten by the public.



### Rising Oil Prices and Rising Living Costs

Eventually, on July 13, 2005, the government announced that it would allow the price of diesel to float, though it would also reduce the excise tax and municipal tax by 1.1 baht per liter. The total cost of subsidizing gasoline and diesel was 92,070 million Baht. (Altogether, gasoline was subsidized for 286 days and of diesel for 551 days). To fund these expenditures, the government issued the bonds worth 80,000 million Baht with an interest rate of approximately 5% per year. This means that tax payers must pay 4,000 million baht per year for 5 years, for a total of 20,000 million baht.

### Monthly Oil Retail Price, January 2005 - January 2006



Source : PTT Public Company Limited

According to the Department of Commercial Energy, oil consumption increased in reaction to the government's intervention in the market. Imports of refined oil rose from 9 million liters in May 2003 to 245 million liters in May 2004, or from 72 million baht to 2,206 million baht. The Bank of Thailand estimates that increases in the price of oil reduced economic growth in 2005 from an expected range of 5.25 – 6.25% to a range of 4.5 – 5.5%.

When the government removed subsidies on diesel, the price rose from 14.6 baht per liter to 24 baht, which fed through to the cost of living. The prices for public buses in Bangkok, for intercity buses, and for airplanes all increased. Manufacturers of consumer items with regulated prices reduced product quantities. Fishermen and transportation companies in many provinces stopped working because of the high price of fuel.

The government raised the legal prices for essential products such as soap, detergent, fish sauce, milk, cement, paint, and chemical fertilizers. Without price increases, a black market would probably have emerged.

### **Searching for Responses to High Oil Prices that Do not Harm the Economy**

In response to the high oil prices, the government issued a Cabinet Resolution on July 12, 2005, containing three measures:

1. Gas stations were to be closed and prevented from selling any kind of fuel between 10pm and 5am, except for gas stations on major transport routes.
2. Lights on billboards and shop fronts were to be turned off between 7pm and 10pm.
3. Government agencies were not permitted to claim fuel reimbursements, except for gasoline. This measure was expected to save 6,680 million baht per year.

Following the Cabinet Resolution, the price of oil continued to increase. Every increase led to new policy proposals, though few led to actual policies. For instance, in September 2005, the price of gasoline increased by 160 baht per barrel in a single day. The Prime Minister ordered the Ministry of Energy to consider the following energy-saving measures:

1. Close the petrol stations 1 or 2 hours earlier
2. Limit car speeds to 100 km/h
3. Increase taxi stop points from 200 points to 400 points
4. Instruct the Industrial Product Standard Office to issue more standards for energy-saving products.

None of these measures were implemented. The government continued to be concerned mainly about economic growth. An example of this concern was the cancellation of the order to reduce opening hours for department stores. The government asked people to reduce speeds to 90 km/hr, turn off air conditioners from 12pm to 1pm, and turn off one light per household. However, these requests were eventually forgotten as was the policy for cabinet ministers to cease wearing jackets at cabinet meetings, to save on air conditioning.

Thailand also faced an energy crisis in 1980, during the premiership of Gen. Prem Tinsulanond. At that time the government passed an Emergency Decree to Prevent a Shortage of Fuel Oils. Many measures were implemented. For example, television broadcasts were prohibited between 6.30pm and 8.00pm, gasoline stations were closed between 6.00pm and 6.00am; entertainment venues were allowed to open only between 9.00pm and 1.00am; and billboard lights were turned off. The Thai government also launched a concerted effort to find new sources of energy for the country. This led to the discovery of natural gas sources in the Gulf of Thailand. The natural gas was used for electricity generation, reducing dependence on fuel oil imports.

## A New Energy Source with New Problems

According to Prime Minister Thaksin Shinawatra, it is impossible to control the price of fuel oil, so Thailand should turn instead to bio-diesel and ethanol. On May 17, 2005 the government passed a Cabinet Resolution on the Strategy for Solving the Energy Problems. The Cabinet Resolution called for a 13% reduction in total consumption of energy in the year 2008 and a 20% reduction in 2009. It also called for the use of alternatives to imported fuel. It proposed that by December 2008, 10% of gasoline imports should be replaced by natural gas. By January 1, 2007 Gasohol 91 and 95 should be available nationwide, and sale of Gasoline 95 should be prohibited. By 2012, 8.5 million liters of bio-diesel should be used per day, and oils palms should be planted urgently to meet supply needs.

Government public relations campaigns have urged motorists to replace gasoline with new sources such as gasohol. This has contributed to a 900% growth in sales and, consequently, shortages of ethanol, the main ingredient in gasohol. Extra supplies of ethanol have been imported, contrary to the objective of reducing energy imports. Moreover, there have been conflicts between retailers and suppliers, since the production cost of molasses is 20 baht per liter, while the legal selling price is 15 baht per liter. Licensed ethanol factories have ceased operations, further contributing to the shortages.

The use of oil palms for bio-diesel is new, and the promotion and management of plantations is important. Promoters of bio-diesel are keen to avoid the supply problems experienced by gasohol. The Ministry of Energy and Ministry of Agriculture and Cooperatives have worked together to manage the raw materials used to produce bio-diesel, cooperating with plantations in Thailand and neighboring countries. There have been rumors of about problems in the natural gas promotion scheme, as PTT is the only company licensed to distribute natural gas in Thailand.

## Sustainable Solutions: Energy Self-sufficiency

Despite rises in the world price for oil, many large energy companies have increased their profits. Many programs to address the problem of rising prices led to conflict. Thailand's current energy system creates risks for Thai society. According to energy experts, the government can reduce these risks by implementing the following policies.

1. Emphasize energy self-sufficiency
2. When privatizing, allow more openness and fairness, and avoid the monopolies and excess profits of previous privatizations
3. Introduce a rotating energy market in order to avoid dependency on the importation of fuel oil
4. Allow the public to participate in the planning and management of energy policy at every level.

Collaboration between all groups is essential. People should adapt their lifestyles to the higher energy costs, and introduce energy-saving measures. Alternative source of energy already exist. What is missing is measures to increase people's motivation, for the sake of the country's energy security.

The Ministry of Energy has labeled 2006 the year of alternative energy. The price of electricity is set to rise. It will be interesting to see how the government will adjust to the era of high old prices. Many experts agree that the time of cheap oil has now passed.

### **Will Thailand be able to achieve energy security through self-sufficiency?**

