

CHAPTER 11 PETROLEUM INDUSTRY

Historical background Searches for oil in Thailand were first made in 1921. At that time, petroleum activities were solely within the Government sector. In the beginning, exploration of petroleum was conducted by the Military Fuel Division which discovered the first oil field known as Bo Thon Kham in northern Thailand. Subsequently, a number of other oil fields were discovered, but their operations were not very productive.

Attempts to attract foreign investors for petroleum exploration was initiated in 1960. Subsequently, the first foreign oil company was granted a petroleum exploration permit by virtue of the Minerals Act then prevailing as the exploration and mining of minerals included petroleum.

For the purpose of promoting petroleum exploration and production and to attract more investors, Thailand enacted the Petroleum Act and Petroleum Income Tax Act in 1971, after its ratification of the Convention on Continental Shelf and the first United Nations Convention on the Law of the Sea. The Petroleum Act was amended in 1973, 1979, 1989 and 1991. The 1991 amendment exempts machinery and equipment from import taxes.

The Petroleum Act Under the Petroleum Act, *petroleum* includes crude oil, natural gas, natural gas liquid, by products and other naturally occurring hydrocarbons in a free state, whether solid, semi-solid, liquid or gaseous, and all heavy hydrocarbons which can be recovered in situ by thermal or chemical processes, but does not include coal, oil shale or other kinds of rocks from which oil can be extracted by application of heat or chemical process.

The Petroleum Act regulates the conduct of petroleum operations, including exploration, production, storage, transport, sale, or disposal of petroleum undertaken anywhere in Thailand, including the areas of the continental shelf over which Thailand has jurisdiction.

Petroleum exploration and production grants to private investors are in the form of concessionary contract wherein the concessionaire pays to the government royalties, special remuneratory benefits and tax in consideration for the concession granted. In addition, the concessionaire may offer to the government special advantages that are normally in the forms of scholarships, training, grants to government agencies or educational institutions, signature and production bonuses, or state participation in the concessionaire's equity. Concession agreements are to modelled on a draft contained in a ministerial regulation.

Under the previous provision, the price of the exported crude oil is based on the most up-to-date method of quality valuation, giving due regard to the posted price of comparable crude oil in the Persian Gulf, geographical locations, of the point

of export and the point of purchase, including market outlets and transportation costs. The price is thus notified unilaterally by the concessionaire without state intervention. However, under the last amendment to the Petroleum Act, the government is empowered to rectify the notified price of the exported crude oil.

Exploration and production regime

Exploration blocks and areas A petroleum concession may cover an area of not more than five exploration blocks provided that the aggregate areas of such exploration blocks shall not exceed 20,000 square kilometers. For exploration blocks having water depth in excess of 200 meters, the Minister of Industry shall have the power to award a concession in a number of exploration blocks and the total area thereof as the Minister deems appropriate.

Exploration period The exploration period must not exceed six years from the date of granting of such concession with a possible extension for three years. Such exploration period is divided into three obligation periods. The first period is the first three years of the term, the second is the remaining petroleum exploration period after the first period and the third is the period of the renewal of the petroleum exploration period, if such period has been renewed. The concessionaire is required to fulfil certain work and expenditure obligations within the exploration period.

During the exploration period, the concessionaire may produce petroleum with approval from the competent authority, provided that the concessionaire demonstrates that a commercial well has been discovered and the production area has been correctly defined.

Relinquishment At the end of the fourth year, 50% of the exploration area must be relinquished except for exploration blocks that are more than 200 meters deep, of which only 35% need be relinquished. At the end of the exploration period if an extension is not applied for, the entire area remaining is relinquished. Where an extension is sought, a further 25% of the area must be relinquished except for exploration blocks that are more than 200 meters deep, of which 40% must be relinquished. At the end of the renewed period, the concessionaire must relinquish all the remaining area. However, the concessionaire may be entitled to reserve 12.5% of the exploration area for a period not exceeding five years for further exploratory work, provided that the concessionaire has the right to produce petroleum from that area after the exploration period has ended.

Production period The production period must not exceed twenty years from the day following the end of the exploration period, notwithstanding any petroleum production undertaken during the exploration period. The production period may be extended for a further period of not more than 10 years.

Fiscal regime Since the last amendment to the Petroleum Act and the Petroleum Income Tax Act, the Thai fiscal terms have become more attractive and suitable. The three main pillars in the fiscal regime are:

1. Royalties, on a sliding scale of 5-15% of production.
2. Petroleum income tax, presently at the rate of 50% of net income.
3. Special remuneratory benefits.

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