



CHAPTER I

INTRODUCTION

Petroleum business needs high capital and technology and is also very risky. The countries who own the resources mostly avoid the risk by inviting oil companies of high equity and expertise to explore for and produce petroleum in their countries. The ratio of profit split between the host countries and the oil companies usually based on the petroleum potential, energy policy, and competitive investment in the region.

Thailand uses Concession System with oil companies who are awarded the right to explore for and produce petroleum in Thailand. The Concession System has been in use since 1971 with some amendments of specific terms to suit current energy situation and policy. The present fiscal regime for petroleum operation is known as Thailand III which consists of three main instruments: royalty of sliding scale rate based on the level of production from 5% of low production to 15% of high production, Special Remuneratory Benefit (SRB) of sliding scale rate, based on the Annual Revenue per Meters of well drilled plus a constant (Calculation of SRB is shown in Table 3-2), which will be calculated and collected after all the cost has been recovered in full, and the income tax of 50 % of taxable profit.

As two fiscal instruments in Thailand III, royalty and SRB, are of sliding scale rate, thus a boundary must be set as base in the computation and the block by block basis is then applied.

The Block Ringfencing concept used in the computation of royalty and SBR has pronounced influence on the profit split between the State and oil companies while the aim of Thailand III is to provide fair profit split to the State and the investors in all levels of production and investment. For example, the Royalty would be higher for a block with one large field and a number of small (marginal) fields when the Block Ringfencing concept is applied, compared to the case that Royalty is calculated based on production of a field or is done on a field by field basis. Moreover, a company has to pay SRB or pay higher SRB for the case of applying the Block Ringfencing concept compared to the case that financial calculation is based on the overall cost and revenue of the company if the company has one large petroleum field and a number of marginal fields.

The main purpose of this work is aimed to identify the effects of the application of the Block Ringfencing concept on the return to the concessionaires which might be useful in improving the terms and conditions of the petroleum fiscal terms. Also included are the studies of effects of various parameters – different lag time of development, different values of K factor in the case of not using the Block Ringfencing concept – and other economic parameters on the effects of the Block Ringfencing concept.

All the models used in this study are designed based on actual data on petroleum activities in Thailand to render the analysis realistic characters, i.e. the sizes of fields and arrangements of combinations likely to be discovered in Thailand, exploration and development cost, and gas and condensate price, etc.