

Thailand's Energy Policy Challenges and Expectations on Cooperation with Japan

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On September 18-19, I had an opportunity to exchange views with Thai government officials and energy industry people in Bangkok on Thai energy policy problems. In Thailand, a military coup took place May this year to contain a bitter dispute between supporters and opponents of former Prime Minister Thaksin Shinawatra that had divided the country in two. Since then, the Thai situation has so far been stable under interim Prime Minister Prayuth Chan-ocha. A roadmap has been given for a transition from the present interim government to a full-fledged one through a general election scheduled for next year. Various initiatives will be implemented during the transition to stabilize domestic politics, the economy and national livelihood and to achieve national reconciliation.

To achieve the national reconciliation, however, Thailand will have to resolve many difficult challenges including a fair democratic election satisfactory to the people, fundamental wealth gaps and income distribution. Future developments remain unforeseeable. Under such situation, Thailand has various energy challenges regarding the stabilization of the national economy and livelihood. Policymakers and energy industry people cannot ignore these challenges. The following summarizes Thai energy challenges I felt through the exchange of views.

First, I felt that government officials had great interests in problems regarding stable energy supply. Thailand's largest energy source is oil, which accounted for 47% of Thai energy supply in 2013. While oil's share of total energy supply has gradually fallen and is expected to continue declining, oil is likely to remain the most important energy source in Thailand. The country depends on imports for 67% of its oil supply, importing oil primarily from the Middle East. Due to the crude oil price spike since 2011 and the recently destabilized Middle East situation including Iraq and the rise of ISIL, oil supply security is a grave policy matter of concern to Thailand.

Attracting attention in this respect are Thailand's efforts to enhance emergency response capacity including oil reserves. Thailand has raised mandatory oil inventories for domestic oil

business operators and is about to consider building government oil reserve facilities. Given high economic costs, however, twists and turns are expected to come before a final decision. At the same time, Thailand is deeply interested in international cooperation in developing emergency response capacity. It has made steady efforts to deepen cooperation with the International Energy Agency and indicated deep interests in enhancing the feasibility of an oil supply security framework for the Association of Southeast Asian Nations. In this regard, I felt that Thailand is greatly interested in cooperation with Japan as well.

Second, Thailand also has grave interests in natural gas supply security. Gas's share of fuels for the power generation sector is as high as 70% in Thailand, indicating that stable electricity supply is closely connected to stable gas supply. Thailand depends primarily on domestic gas output and limits pipeline gas imports from Myanmar to some 30% of its gas demand. It has recently started liquefied natural gas imports. As electricity demand has expanded, how to expand gas supply has become a key challenge. While domestic gas output is expected to decline over a medium to long term, how to maintain domestic gas output, including whether to expand investment from abroad and revise gas development systems, is likely to become a major problem. Expectations are placed on the expansion of LNG imports as a new option. In this regard, LNG import prices in Thailand have the Asian premium problem as in other Asian LNG importing countries. I felt that more competitive LNG procurement will become a key urgent challenge in Thailand as well as in Japan.

Third, Thailand and other countries has are facing difficult challenges regarding energy development and environmental problems. As noted above, gas has a dominant share of Thai electricity supply, prompting policymakers to consider diversifying electricity sources. Particularly, diversification options include coal, renewable energy and nuclear energy. Among them, coal including domestically produced low-grade coal (brown coal) is viewed as the most economically competitive. In fact, however, the construction of coal thermal power plants and relevant facilities has reportedly been very difficult because Thai citizens, in particular those live close to site of planned coal related facilities, strongly oppose coal-fueled power generation due to environmental concerns. The introduction of nuclear power generation is positioned as a long-term challenge, while renewable energy generation is viewed as having problems in terms of economic efficiency and stable supply. In this way, Thailand has plunged into a dilemma in which the country is experiencing difficulties in proceeding with coal power generation that is viewed as the most economically promising. In our exchange of views, therefore, the Thai side indicated strong interests in Japan's experiences and know-how concerning clean coal technologies including IGCC (integrated gasification combined cycle) plants using brown coal, as well as how to build relations with local residents to win their acceptance of energy infrastructure facilities.

While the escalation of the divisive political dispute has caused an economic slump in Thailand, its medium to long-term growth potential is still high. At present, Thailand has close economic relations with Japan. Given the recent international relations in Asia, Japan's political relations with Thailand as one of the leading ASEAN countries are growing more important. Various energy policy challenges in Thailand indicate that the country, while being required to make efforts to solve relevant problems on its own, must take advantage of international cooperation to effectively address these problems. In this respect, Thailand has great expectations on and interests in enhancing cooperation with Japan. Given this point, Japan may have to develop the promotion of Japan-Thailand energy cooperation as part of its international energy strategy.

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