A History of the Petroleum Oil Industry in Thailand from 1946 to 1978: An Overview

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INTRODUCTION

The petroleum oil industry, especially oil refineries, is currently one of the most important economic activities in Thailand. However, only since the post Second World War period has the industry become a crucial sector of Thai economy. In the same way, the development of Thailand petroleum industry seems to have a similar experience to this industrial development in many countries, especially the developing countries, in the same period.

After the Second World War, the oil market in developing countries was mostly controlled by the multinational oil companies—the so-called “The Majors”. These companies successfully established the structure and system that controlled the world oil market, supply chain, and the production and refining technologies. However, in the 1960s the emergence of the Organization of the Petroleum Exporting Countries (OPEC) and the nationalized oil company, especially in some middle-east countries, was an important cause that destroyed the oil market monopolized by “the Major”. In the early 1970s, the OPEC countries became one of the powerful world economic organizations, which controlled over 70 percent of world oil reserve. OPEC succeeded in negotiating with multinational oil companies about the increasingly oil production interest sharing and tariff. At the same time, OPEC also used the oil production as a weapon in political tension between middle-east Arab countries and Israel. The 1973 oil embargo, which was responsible for the US and ally supporting the Israeli military in Arab–Israeli War, caused the first oil price crisis that the price of oil in world market rapidly rose. And it affected the oil industry and market in numerous countries, especially the developing countries that had no domestic crude oil production. Moreover, this rapid rise of oil price was the main influence that led to the establishment of national oil company concept which appeared in many countries.

Likewise, Thailand was one of several countries that had the same experience in world oil industry development and the first oil price crisis. This paper offers an overview of Thailand petroleum development and growth from 1946 to 1978. In order to understand the transformation of Thai petroleum industry, this period is historically important not only for the rapid growth of world oil industry, but it is also the era of rapid economic and industrial development in Thailand, specifically the improvement of road system and other infrastructures, which led to the high growth of automobile and oil demand in this country.

1 I would like to thank a number of scholars who have suggested and commented on this paper, including Michael Montesano, Kay Mohlman, Villa Vilaithong, Trin Aiyara, and Alisa Santasombat.
2 The seven biggest multinational oil companies, including five American-based (Exxon, Gulf, Mobil, Socal, and Texaco), one British (BP) and one British-Dutch (Shell), were called “The Major” or “The Seven Sister” by some journalists and scholars.
THE RETURN OF THE “MAJOR”: THE THAILAND PETROLEUM OIL INDUSTRY 1946-1957

In 1950s, Thailand entered to the new era of economic and industrial development which was undertaken by the technical advisory and funding from the United State and world organizations that leaded the “Free World”. At the same way, this period was also a crucial era of Thailand petroleum industrial development.

At the end of war, the Standard Oil and Shell Company, two leading petroleum oil enterprises, immediately came back to Thailand to support the allied military base and survey the opportunities for reopening their business. Although both of oil companies had run their business as oil suppliers since 1890, they closed the businesses when Thai government began to intervene this sector which could be seen from the announcement of the Petroleum Law in 1938. The law partly represented an essence of economic nationalizing policy. However, the Petroleum Law came to an end in 1946 by the pressure from American government and foreign petroleum enterprises on Thai government. Subsequently, the government and foreign petroleum enterprises bargained to sign the 1946 agreement which simultaneously protected the benefit of the private oil enterprises and prohibited the government to participate in oil business.

The foreign enterprises would take the lion share of domestic petroleum market in the post-war era unless the coup d’état in 1947, which was led by the army and conservative elites, took place. The successful coup enabled the elites to implement the state capitalism policy under field Marshal Phibun as prime minister.

Regarding to state-led policy, the military government restored several state enterprises which were established by pro-nationalism government in the mid-1930. Additionally, some government officers had conflict of interests because of their association with these enterprises. Particularly, the military government, especially ministry of defense, had an ambition to establish state enterprise for oil business. The negotiation for cancelling 1946 agreement was conducted between 1952 and 1956. However, the negotiation had not reached a conclusion until 1957.

In 1957, the negotiation finally reach a conclusion thanks to the extremely forcing from Thai government under the Field marshal Sarit, who was the defense minister at that time. In the same year, he became a prime minister due to the “revolution” – the “revolution” which brings Thailand to the era of development.

PETROLEUM INDUSTRY AND THE DEVELOPMENT ERA

Due to the 1957 “revolution”. Thailand took off to the stage of economic development and industrialization. Military government, which Sarit had maintained as a Prime Minister in since 1958 until he died in 1963, introduced National Development Plans, and established several organizations to promote economic development. These organizations were The Board of Investment of Thailand, and Office of the National Economic Development Board, for instance. Simultaneously, Thailand experienced the unprecedented huge

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8 Most of the ideas that form the economic organization and development plan since Sarit regime were influenced by “A public development program for Thailand”, the International Bank for Reconstruction and Development or World Bank’s survey research that operated in the late 1950s. See. International Bank for Reconstruction and Development, A Public Development Program for Thailand (Baltimore: The Johns Hopkins Press, 1959).
influx of foreign direct investment as well as the rapid improvement in roads, housing, and infrastructure.\(^9\) The dramatic economic growth was also partly boosted by the Vietnam War, as Porphant pointed out.\(^10\)

**The Dawn of Thailand Petroleum Industry**

In addition to economic development, the Petroleum Industry in Thailand also gradually emerged in this period. In the late 1950s, Thai government planned to develop the petroleum industry for supporting the anticipated growing industries, transportation and household consumption in the next decade. Figure 1 indicates that all types of oil demand in Thailand increased from 1,307 million liters in 1960 to 5,068 million liters in 1970; in other words, oil demand expanded approximately 4 times during 1960-70. The majority of oil demand was for diesel, fuel oil, and benzine. Specifically, the demand for diesel increased from 531 million liters in 1960 to 2,166 million liters in 1970, similarly, the demand of fuel oil and benzene also increased from 128 million liters in 1960 to 1,430 million liters in 1970 and from 505 million liters in 1960 to 870 million liters in 1970 respectively. Moreover, the trend of oil demand pointed out that most of oil demand was from the transportation. This trend is likely to be compatible with the increasing number of motor vehicles in the 1960s. (See Table 1). Interestingly, the vehicle increase was mainly caused by a pattern communication development which mostly depends on a road system.\(^11\) Furthermore, the road’s development was strongly support funding and technical advising by U.S. Government and the world organizations especially World Bank.\(^12\)

![Figure 1: Thailand oil demand in the 1960s (Million Liters)
(Source: Department of Custom)](image)

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\(^11\) The road in Thailand expanded from 10,700 kilometers in 1951 to 16,293 and 20,097 in 1960 and 1965. And then, the road construction and development projects were mostly from the US aids and suggestions. In the same time, the Department of Highways was the first rank of unit which was received an annuals budget from the Ministry of National Development. For example in 1967 this department was received 2,219 million baht from ministry’s all budget 4,034 million baht , or about 50 per cent. However, this budget was not including the foreign development funding.

Table 1: The number of motor vehicle in Thailand between 1960 and 1970.
(Source: CSO)

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</thead>
<tbody>
<tr>
<td>Vehicle</td>
<td>124,369</td>
<td>159,911</td>
<td>251,848</td>
<td>359,546</td>
<td>488,913</td>
<td>709,367</td>
</tr>
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</table>

In 1960, the Thai Oil Refineries Company, which is the first Thai oil refinery company, was given permission to build oil refineries by government. This company, which had refinery capacity of 30 thousand barrels/day, operated on the eastern coast of Thailand. This refinery company was opened on 11 December 1964. The owner of this company, interestingly, could be divided into three main groups: the multinational oil enterprise, Shell Company; Thai-Chinese entrepreneur group; the bureaucratic or military capitalist group.  
Each group had its own importance as follows: Firstly, the multinational group possessed not only capital, but also the refining technology and the supply chain of raw material and oil product. Secondly, the domestic capitalist could connect to a network of domestic distribution and connections. Lastly, the bureaucratic/militant capitalists held the political power and connection which could guaranty the success of the business.

After the first year of the oil refinery’s operation, the second oil refinery, with a capacity of 25 thousand barrels daily, was began to operate. This refinery, was owned by Ministry of Defense, and was started by the Summit Industrial of Panama Company. The story of this refinery is complicated because of the Thai government’s plan to establish a state refinery, which began in the early 1950s. But the project really started in the late 1960s, and faced construction problems, which make the refinery to change construction companies two or three times. In the same way, although the Ministry of Defense firstly had a plan to manage the refinery by itself, it finally delivered it to private foreign company, the Summit Industrial. PM Sarit told the newspaper that “Thai Government budget will go down if the refinery is rented out.”  
The contract between the Thai government and Summit stated that before selling oil to other oil distributors or for export, the company had to sell its production to fulfill the demands of The Fuel Organization, which was the state oil distributor.

Further, in the late 1960s there were not only 2 world-scale refineries in this period, but the ESSO (Thailand) Company also established new world-scale refinery, which had capacity of 3.5 thousand barrels/day. The ESSO oil refinery took over the asphalt refinery in Sri Racha, in in the eastern part of Thailand. The refinery received the government’s license to refine and produce all kinds of petroleum, except benzine.

With three world-scale refineries, Thailand had total refining capacity of 90 thousand barrels daily; however, this capacity was not sufficient for domestic demand, which was rapidly growing. Although the three refineries expanded capacity to 17.6 thousand barrels/day in the early 1970s, the domestic demand was still higher than refining capacity. Figure 2 shows the comparison between domestic oil demand and oil refining production from 1970 to 1975, the figure illustrated oil production hardly sufficient for domestic for petroleum consumption, particularly benzine and diesel. For example, in 1970 the annual domestic oil usage was 5,068 million liters, but the domestic oil refined was annually 3,747. Although in 1974 the oil refining was higher than domestic consumption, but this was slightly higher.

14 N.A. (2) Fiscal Policy Office 1.2.4.1/2 (5 November 1964).
15 Siam Rath (24 August 1962).
The Fuel Organization: The First State Oil Distributor

In the 1960s, on the one hand Thai government promoted and supported the economic and petroleum investment, especially from both of domestic and foreign private enterprises, but on the other hand, the government also joined to interest in this industry by establishing state oil distributor called “The Fuel Organization” in English or “Ong Kan Chuea Phloeng” in Thai. The function of this organization was to support and sell oil production to government service units and to the public via distribution by “Sam Thahan” or “Three Army” brand. In fact, more than half of the organization’s income in 1960s was from sales to state units and enterprises. For instance, in 1970 about 51 per cent of income was from these units and enterprises, while the share of income from major retailers was about 28 per cent. Furthermore, in the late 1960’s, this organization had a share in the domestic market of about 26 percents, which was third ranking in the market. Shell and ESSO were respectively at the first and second rank.

THE AGE OF NATIONALIZATION AND EXPLORATION

Although the Thailand petroleum industry was rapidly growing in the 1960s, the supply of both crude and refined oil remained heavily depend on the import from abroad, especially Indonesia and some Middle Eastern countries. The domestic crude oil production, which was from the “Fang” oil field was controlled by Ministry of Defense. It was less than 500 barrel/day. Fang oil field was too small to make an economic impact. The dependence on import oil illustrated that the nation’s economy highly relied and depended on oil prices in the world market, because many sectors, especially industry and transportation, relied upon petroleum oil as a crucial fuel. Figure 3 shows the annual oil import in Thailand that had rapidly increased from 1950 until 1978, especially crude oil which had speedily increased from 6,389,600 to 10,233,074 thousand liters in the period 1963 to 1979 or after the establishment of domestic refineries.

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The “Major” vs. “State”

Historically, a steep rise in the world price of oil in the mid-1970s, which was caused by the Middle-East political tension and the APEC’s oil embargo, also affected Thailand’s domestic oil market and economy. This situation led to tension between private oil companies, Thai society, and government. This was also a primary reason for the establishment, the Petroleum Authority of Thailand in the late 1970s.

In the period 1972-1976, oil prices in world market rose from 3 to 12 USD/barrel. For a while the private oil refinery companies, especially TORC and Summit, began to negotiate with Thai Government for raising the oil price. Although, the government did not approve with them, because it be affect Thai economy, the private companies insisted on their request.19 At the peak of world oil prices and domestic tension in second half of 1973, Summit gave the threat to Thai government that they might temporarily stop their refinery because the gap between prices inside and outside the country would make them bankrupt. Similarly, TORC also gave the threat to the government that they might be reducing production at the refinery.20

Many of the newspaper columnists and government officers denounced the behavior of private refineries. For example Daily Time columnist Nui Bangkhuenthian note in his short article “The Oil Organization of State” that:

We must incorporate all of petroleum activities (crude oil trading, oil refining, and oil retailing) into a state monopoly. This way might destroy a middleman and sleeping partner. We must not return to the time in which “Sia Chaw” and “Sia Huang” (the owner of TORC and the Summit manager) extorted all Thai people, and today we are the same as a skeleton.21

However, at last Thai government was resolved the problem by agree with TORC’s and Summit’s request, and use an oil tax reduction policy to preserve oil prices. In the same way, some ministries and technocrats presented a plan to promote oil exploration, which was concrete and possible, to the government. Moreover, some journalists and political elites also proposed a plan for nationalization of the oil industry or establishment of a national oil company.

19 Thai Rath (9 May 1973).
20 Kao Panit (22 February 1974).
21 Daily Time (8 January 1975).
The Emergence of the Resplendent Age: A Petroleum Exploration in the Gulf of Thailand

There was no real and large scale oil drilling in Thailand until the mid-1970s although there had been exploration and drilling attempted since the 1920s. Because most of the fields which might have petroleum were offshore, in which high and costly technology was needed, the operation would not be worthwhile if the oil price were still low. However, since 1972, the oil price had constantly increased. Hence, the rising oil price created an opportunity for offshore drilling. Simultaneously, the petroleum law, that included condition for exploration and drilling, was announced by the Thai government in the 1970s. It boosted self confidence for investors in the petroleum exploration. At the same time, the Thai government was given help by the US, in exploring marine area for the offshore concession, and some part of mainland area for onshore production. There were nine foreign oil companies in possession of exploring concessions such as BP, UNION Oil, AMOCO, GULF Oil and TENNECO. Table 2 illustrates the foreign oil companies and their offshore block which they received a concession.

Table 2 Oil Company and the offshore block
(Source: South East Asia Petroleum News, Vol.2 No.10 (December 1971), p. 3.)

<table>
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<tr>
<th>Company</th>
<th>Offshore Block</th>
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<tbody>
<tr>
<td>Gulf Oil</td>
<td>1,7-9</td>
</tr>
<tr>
<td>TENNECO</td>
<td>2,14-15</td>
</tr>
<tr>
<td>BP</td>
<td>3,4,16-17</td>
</tr>
<tr>
<td>AMOCO</td>
<td>5-6, W2</td>
</tr>
<tr>
<td>CONOCO</td>
<td>10-11</td>
</tr>
<tr>
<td>UNION Oil</td>
<td>12-13</td>
</tr>
<tr>
<td>TRITON</td>
<td>W-5</td>
</tr>
<tr>
<td>PAN OCEAN</td>
<td>W-4</td>
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In 1974, Block12/13, the first offshore site, saw complete success in drilling by UNION Oil Company. However, most production from this site was natural gas, not oil. Accordingly, this site would was going to economically produce for serving domestic demand in the late 1970s. The offshore petroleum which was discovered in the Gulf of Thailand awakened the regional petroleum industry circle.

After this first site, much offshore petroleum, in which a majority of the product was natural gas, were discovered by MNEs under the state concession. These enterprises were important mechanisms in petroleum exploration and production, because they had had not only higher finance potential than domestic enterprises and government, but they also had advanced technology and know-how for offshore production.

The Emergence of PTT. : The First State Oil Enterprise

In the period 1960 – 1980, there were about 74 countries which nationalized the petroleum industry or established national oil company. These state acts could be classified into two main types. The one cause was that the nationalization of oil industry was pushed forward by the national interest partly based on nationalism sentiment. Another cause was that the oil industry was enforced by the state that would establish the state oil enterprise, which government could use this as a strategic policy instrument of national planning.

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The establishment of Thailand national oil company’s concept consisted of both mentioned causes. After the first oil price crisis and the tension between the Thai government and private oil refinery companies in the mid 1970s, Thai society, especially numerous journalistic and political elites, pressed the Thai government to do something about petroleum industries in Thailand. Some parts of them suggested that the government confiscate or nationalize private oil refineries to enable the Thai government to control the domestic oil market. Similarly, many of them proposed to establish a national oil company, which could eradicate the monopolization of the petroleum industry by foreign and domestic private enterprises. Thus, the national oil company would be an organization which regulated the domestic refineries when the refinery’s concession particularly TORC and Summit expired.

Finally, after the political turmoil in the period of 1973 – 1977, Thai government under Gen. Kriangsak Chomanan established the Petroleum Authority of Thailand (PTT.) in December 1978. Additionally, it abolished the Fuel Organization, the state oil distributor, and transferred most of this organization officer to PTT. PTT’s function was not monopolizing the domestic petroleum industry; on the contrary, its function was the same as a private enterprise which was run by state. Moreover, the PTT was not only an organization for regulating private refineries after their concessions expired, but the aim of this company was also to act as a partner with MNEs in petroleum exploration and production.  

CONCLUSION

This paper has explored the reasons and factors behind the rapid growth of Thailand petroleum oil industry since 1946 until 1978. It is proposed that there are two main sets of factors which drove the industry’s dynamic. The first relates to changing economic conditions, including improved infrastructure and a new road system, that were a part of Thailand’s master plan, which was created with guidance from the United State of America and World Organizations , especially World Bank. The second was factors that relate to political economy of the oil industry itself, especially regarding bargaining between the Thai political and military elites, and domestic and multinational enterprises (MNEs). In particular, after 1960s, Thai elites and entrepreneurs sought to acquire interest in oil industry, which had largely been controlled by foreign companies. However, the domestic oil demand which heavily depend on the import from abroad was the main problem of Thailand petroleum industry, and was strongly affected by oil price crisis in the mid-1970s. Accordingly, this crisis was the main cause which boosted an oil exploration and drilling in Thailand, and the establishment of Petroleum Authority of Thailand in the late 1970s.

25 The Fourth National Economic and Social Development Plan (Bangkok: Office of the National Economic and Social Development Board, 1976), pp. 5-6,225.
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