

Why is Thai retail oil price based on Singapore price?

Singapore price definition

Singapore oil price is agreed upon by oil traders in Asia that conduct energy trading in Singapore market. It is not the price indicated by Singapore or the refineries in Singapore. At present, the world's major international energy future markets are NYMEX-New York Mercantile Exchange, London's International Petroleum Exchange or IPE and SIMEX-Singapore Monetary Exchange.

Why does Singapore become oil market for Asia?

1. **The exporting capacity of Singapore refineries** Singapore refineries have a high refining capacity of 1.2-1.5 million barrels per day (b/d) and export approximately 800,000-1,000,000 b/d compared to Thailand which processes 1,012,000 b/d and exports 170,000 b/d. The refining business of Singapore is mainly for export or a net exporter. In fact there are other refineries in Asia with higher capacity, but those refineries' businesses are mainly for domestic consumptions. Should only there be excess of supply, the products will thus be exported.

Hence the price of petroleum products traded in Singapore market truly reflects the export price, real procurement capacities as well as oil demand in Asia region.

2. **Location of Singapore as a port of entry** The strategic geographical location of Singapore is suitable as a central port of Asia. It is a point of entry to receive oil from the Middle East and to efficiently distribute the finished products to various locations in Asia.

3. **Excellent management system and full facilities.** In running the country, Singapore has a policy to promote and facilitate international investments and businesses. Singapore's government delivers innovative and efficient service infrastructure which enables international business to establish organization or company in Singapore to operate the business quickly. Singapore sets low tax rates in order to attract foreign investments. As a result, the companies and representatives in Asia are allowed to do business and conduct trading in Singapore in an efficient manner. Singapore is also praised in term of its expertise in doing business internationally and marine logistics.

Why is Thai retail oil price based on Singapore oil price?

1. It reflects the real market and demand/supply of oil products in the region. Given that there are a number of traders from many countries in Asia in Singapore, there is no single seller/buyer which can interfere or manipulate the price. Singapore's price thus reflects the market and the demand and the supply of the region.

2. It reflects the cheapest price of imported oil for Thailand. Singapore is Asia's largest international and export market which is closest to Thailand. Hence the cost of import from Singapore is the lowest for the Thai refineries to compete with. As the distance from

Singapore to Thailand is without a doubt the shortest when compared to NYMEX and IPE, the cost of imported oil from Singapore will definitely be lowest for Thailand.

The oil price must be set competitive with the cheapest import price. That is, the refineries do not compete among refineries in Thailand but with import from overseas. Therefore the prices of the petroleum product prices of the Thai refineries are determined on import parity based pricing, with Singapore market prices as references.

3. It creates balance of production and procurement of the country. As Thailand's oil market is liberalized, the oil price which does not correspond with Singapore, will bring about the imbalance between production and procurement. Namely, if the ex refinery price is determined by the government (either determined by fixed cost or cost plus), and the price is lower than Singapore price, the refinery will then export to Singapore which will cause undersupply. Under such circumstance, Thailand then has to import oil which will unavoidably use Singapore as benchmark for trade negotiations for any sources of oil. On the contrary, if the Singapore price is lower than the refinery price, the traders will not want to purchase oil from refineries as the imported oil is lower. Both scenarios create unnecessary import and export and expense on transportation since Thailand does not have enough oil vessels.

4. Singapore's price is used as reference for every country in Asia for trade negotiations and base for cost price determination. The difference of each country depends heavily on tax system or subsidy. For instance, Malaysia's retail price of diesel was around seven baht per liter as the subsidy from government stood at 6-7 baht per liter. If Thailand wanted to purchase oil from Malaysia, the subsidy by the government would be lifted and the price would be as high as Singapore's.

The retail price which floats along with international oil price is more advantageous.

Given that the cost of domestic prices may rise amidst the high price of international oil prices, it will nevertheless make Thailand to be less competitive from other countries. This is due to the fact that other countries also have high cost as well. In addition, the high price will trigger a signal to consumers to economize and use less fuel in order to save foreign currency from importing expensive crude oil in international market when the price rise. During the low price in the world market, the drivers will enjoy cheap fuel. Like other countries with which Thailand compete, the country will have a decreasing cost of production that corresponds with the world market as well.