

Chapter 4

Conclusion and Recommendations

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For strategic oil pricing in Myanmar, the retail price is at the level of import prices (CIF) purchased by private oil companies through foreign traders, plus taxes, costs and margins. Import prices are contracted on the Singapore spot price link, with its changes reflected in the retail price after a few days. Therefore, the wholesale price of a new refinery entering the Myanmar oil market will have to compete with the import price. Competitiveness of a refinery can be enhanced by increasing the ratio of secondary equipment, which increases the yield of high-value-added products such as gasoline and diesel oil. In short, the equipment configuration of a refinery is the basis of competitiveness. Currently there are two new refinery projects: Thanlyin Refinery which is 200,000 b/d located in Yangon division, and Thanbayakan Refinery, which is 100,000 b/d located in Magway division. Since the details of the new refineries have not yet been determined, this study used the Nelson Index to propose a facility configuration on Table 2.5 that would be as competitive as the Singapore refineries. Although different in size, the two new refineries will require the installation of secondary units such as Vacuum Distillation Unit (VDU), Catalytic Cracking Reformer (CCR), Fluid Catalytic Cracking (FCC), Residue Fluid Catalytic Cracking (RFCC).

In addition to the advanced equipment configuration, the new refinery's challenges include how to enter the petroleum market. It is not difficult for national and private oil companies with large distribution and sales networks to build new refinery and switch from imported petroleum products. If a company without a distribution and sales network builds a refinery and enters the petroleum market, it will need some kind of incentive in terms of price and logistics. Equity participation by several major oil companies in a new refinery may solve the problems. Thanlyin Refinery, which will be built in Yangon district where there are many oil companies' import bases, needs to take this point into consideration. Thanbayakan Refinery, which will be built in Magway district, 550 km away from Yangon, needs to discount the transportation cost when it supplies to Yangon area; when it supplies to inland areas such as Mandalay and Nay Pyi Taw, it will have an advantage in transportation. In any event, when a new refinery enters the petroleum market, it will need to meet the current regional retail price levels.

As mentioned in the Myanmar oil market, the presence of an integrated oil company that handles imports, distribution, wholesale and retail is completely different from Japan. They probably have a large share and are the price leader. Forming a joint venture with such a major integrated oil company to build a new refinery is considered an effective way to facilitate a new refinery's entry into the Myanmar oil market. If the Singapore price moves, the retail price will move two or three days later, and the fact that the retail price of all service stations will be announced online is proof that the integrated oil company is powerful.

This Myanmar pricing mechanism works well. Therefore, the new refinery will be required to

supply at the same or lower price than imported products. The integrated oil company's wholesale price should also be notified on the Singapore link, it is a highly transparent pricing mechanism in a sense.

For gas strategic pricing in Myanmar, the following key findings are extracted:

1. Pursuing natural gas pricing mechanisms that provide comfortable price levels for both consumers and producers continues being the key to the robust development of Myanmar's natural gas resources and market.
2. It is especially difficult to find levels that should be comfortable for both consumers and producers of natural gas in the country.
3. There have been serious issues and obstacles in the natural gas market in Myanmar, starting from shortages of natural gas to generate electricity, slow infrastructure development, withdrawals of international companies from upstream gas development, non-payment of electricity bills, and non-transparent data and policy information.
4. When those issues are solved, there should be hope that domestic gas resources will be developed and fuels into development of the economy.

Based on these findings, we recommend the government (and relevant stakeholders) undertake the following initiatives to support a growing market for natural gas in Myanmar.

1. Pursue natural gas pricing mechanisms that provide comfortable price levels for both consumers and producers:
 - a. Comfortable prices should be affordable enough for natural gas consumers in the country, while they should be profitable enough for producers. Producers should reduce the supply cost as much as possible and consumers should appreciate the value of natural gas for providing essential energy supply, as well as its environmental contribution.
2. Future pricing policies should cover both prices in the domestic market (wholesale and retail) and import and export prices.
 - a. In the domestic market, the prices should allow reasonable growth of the natural gas consuming market. That should be competitive enough to allow residential and industrial users of natural gas to purchase gas without financial pain. That should be high enough for developers of natural gas resources to recover development costs, as well as for importers of LNG to recover import costs.
 - b. As for the import prices, although they simply reflect prices in the international market, they should be competitive enough to be accepted into the domestic market.
 - c. As for the export prices, they should be high enough for developers of natural gas resources to recover development costs.
3. The above goals should be in line with data transparency, a general policy of promotion of gas and demand stimulation, and robust infrastructure management to ensure natural gas and electricity supply security.
 - a. The country's laws and regulations concerning natural gas and electric power, pricing policies on natural gas and electric power, as well as information on major infrastructure

and statistical information of consumption, production, and import/export by sector, region and company should be critical.

- b. Decisions and policy measures regarding: LNG imports - emergency LNG imports in recent years (since June 2020) and longer-term plans (including Thilawa), as well as natural gas utilisation plans (and past statistics) in electric power generation and industrial use should be critical.