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Thailand

Sugar

Sugar Shortage Situation

2006

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Report Highlights:
Thailand's domestic sugar shortage reflects a failure of government regulation to cope with the surge in international sugar prices and local speculation, despite more than enough domestic production. The attractive export prices have created upward pressure on domestic sugar prices. Thai consumers are buying white sugar at expensive market prices, regardless of the government sanctioned prices.

Includes PSD Changes: No
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Domestic sugar shortage: a lesson from price distortion

The Government's administration of domestic sugar prices is currently under challenge by the shortage of white sugar, which has been in extremely short supply for months. The shortage is caused by a surge in export prices that prompted sugar suppliers to secure sugar for export markets instead of domestic sales at the controlled prices. Also, the authorities are practically incapable of enforcing the Thai Cane and Sugar Act B.E. 2527 (A.D. 1984: Article 73) to regulate sugar suppliers to release white sugar stock to meet domestic consumption, despite more than enough domestic production. In addition, the difference between the controlled domestic prices and a surge in the international prices has drawn sugar into nearby countries illegally. The Government faces either raising domestic sugar prices by 3-5 baht/kg, or must revise the intervention program in order to solve this problem.

Production: Far Above Domestic Consumption Despite Drought-Impacted Crops

This year's sugar production is expected to decline for the third consecutive year to 4.3 million tons due to lasting drought in major growing areas. Moreover, it will take the next few years for sugarcane production to recover, despite an attractive guarantee price, which has recently been increased to a record 800 baht/ton (roughly U.S.$ 20/MT). However, current market prices of sugarcane reportedly surged to around 1,100 – 1,200 baht/ton (roughly U.S.$ 28-30/MT) in line with global raw sugar prices, which have increased sharply to U.S. 14 cents/lb (roughly U.S.$ 309/MT). Millers are aggressively securing cane to fulfill their forward export sugar contacts.

Sugar production remains greater than domestic consumption, which is only around 2 million tons annually. Direct household consumption accounts for about 68 percent of total domestic consumption. Also, according to the Thai Cane and Sugar Act (Article 46), the authorities have to regulate sugar millers to prioritize sugar sales domestically through a weekly allocation of around 30,000 – 40,000 tons, far above average weekly consumption. After meeting this quota, sugar suppliers can then sell the rest of sugar internationally. Therefore, exportable supplies will likely be adversely affected by drought-related reductions in sugar production instead of local consumers if the Cane and Sugar Act regulations function well.

Cane and Sugar Administration: Decades of Policy Dilemma and Cause of Shortage

The Government's sugar policy was created to support cane growers and sugar millers since the early 1980's. Minimum farmgate prices of sugarcane have recently been revised up to a record 800 baht/ton (roughly U.S.$ 20/MT) in line with global raw sugar prices. Also, Thai consumers have paid for overly expensive sugar since the early 1980's, as the Government controls domestic sugar prices, normally setting them higher than global sugar prices. This has helped make Thailand the number three world exporter of sugar. The current retail price of sugar has been raised to 13.25 baht/kg (roughly U.S. 15 cents/lb) for white sugar and 14.25 baht/kg (roughly U.S. 16 cent/lb) for refined sugar since June 2000, only the third upward revision in decades of price administration. However, global sugar prices have fluctuated over the past five years, while the controlled domestic prices remain unchanged. International sugar prices are currently around 5 baht/kg higher in the neighboring countries. As a result, white sugar is reportedly aggressively smuggled to the neighboring countries, particularly to Laos, Cambodia, and Burma. Normally, legal border trade accounts for only about 10 percent of total sugar exports under license. Also, the Government failed to regulate sugar suppliers to release weekly sales of 30,000 – 40,000 tons to the local market at the controlled domestic prices. Local consumers are inevitably adversely affected by the sugar shortages, made worse by the speculation of retailers in anticipation of another official upward revision of domestic sugar prices. White and refined sugar is reportedly sold at around 17-20 baht/kg (roughly U.S. 19-23 cent/lb), far above the controlled prices.

Cane growers and millers urged the Government to raise domestic sugar prices by another 3-5 baht/ton in order to solve the shortage problem at the expense of local consumers. Another benefit from an increase in domestic prices will be an easing of the huge debt burden of the Cane and Sugar Fund to the Bank for Agriculture and Agricultural Cooperatives of around 19 billion baht (roughly U.S.$ 475 million), accrued by the price support program during the past six years when market prices were lower than the minimum sugarcane prices. However, the Government still objects to this call, as well as to the call for sugar market liberalization, as the increase in sugar prices will eventually feed inflation, a risk to the Thai economy.

End of Report