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Thailand

Grain and Feed

Intervention Policy Overhauled

2006

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Report Highlights:

The new intervention policy aims to stabilize farm prices with less market price distortion. Intervention prices are set at 1,000 baht/ton (U.S. \$27/MT) lower for fragrant paddy and 600 baht/ton (U.S. \$16/MT) lower for white rice paddy. Consequently, rice exports are expected to increase in 2007 over the previous forecast.

Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
Bangkok [TH1]
[TH]

Background: Expensive Intervention Program in the Past

The aggressive intervention program over the past two years entailed record carry-over stocks, following attractive high intervention price of around 20-30 percent above domestic market

Table: Thailand's Paddy Mortgage and Losses

	2004/05	2005/06	Total
Main Crop (ton)	5,295,237	5,291,831	10,587,068
Losses (million baht)	9,574	5,994	15,568
Second Crop (ton)	797,778	2,173,727	2,971,505
Losses (million baht)	904	1,811	2,715
Total: Paddy (ton)	6,093,015	7,465,558	13,558,573
: Losses (million baht)	10,478	7,805	18,283

Source: Ministry of Commerce

(3.7 million tons milled equivalent). Cumulative costs for the 2004/05 – 2005/06 intervention programs are up to a record 18 billion baht (U.S. \$492 million). The outstanding debt of the Government to the Bank for Agriculture and Agricultural Cooperatives (BAAC) since 1999/2000 intervention program is up to 70 billion baht (U.S. \$1.9 billion).

prices. In the past two years, prices under the intervention program raised Thai export prices U.S. \$30-50/MT over major competitors, such as Vietnam. The outstanding intervention stocks reached a record 6.8 million tons of paddy

Table: Comparison of Intervention Prices, Market Prices, and Carry-over Stocks

	2002/03	2003/04	2004/05	2005/06
Intervention Price (baht/ton)				
Fragrant paddy	6,500 - 6,800	6,700 - 7,000	9,700 - 10,000	9,700 - 10,000
White rice paddy	4,760 - 5,330	4,760 - 5,330	6,200 - 6,600	6,700 - 7,100
Paddy Pledges (ton)				
Main crop	3,542,429	2,838,141	5,295,237	5,291,831
Second crop	2,040,265	118,392	797,778	2,173,727
Carry-over stocks	2,613,040	1,716,364	5,883,233	6,754,888
(milled equivalent)	1,437,172	944,000	3,235,778	3,715,172
Market price before the program (baht/ton)				
Fragrant paddy	6,340	7,980	7,738	7,683
White rice paddy	4,688	4,434	5,932	6,800
Market prices after the program (baht/ton)				
Fragrant paddy	7,560	9,567	7,999	8,151
White rice paddy	4,700	5,193	6,682	6,788

Source: Ministry of Commerce

Under Thailand's domestic Aggregate Measures of Support (AMS) subsidy commitments to the WTO, actual support has been lower than allowed, but, in recent years, has increased rapidly from 72 percent in 1995 to nearly reaching their ceiling of 19 billion baht (U.S. \$473 million). Huge increases in the budget of the paddy mortgage and the paddy price support program accounts for the bulk of Thailand's domestic subsidies and continues to keep Thailand at the ceiling of committed AMS.

New Intervention Program: Lessening Price Distortion

In recent months, the post-coup interim government decided to make adjustments to intervention policy to minimize carry-over stocks, and to avoid program losses. Consequently, the 2006/07 intervention prices are set 1,000 baht/ton (U.S. \$27/MT) lower for fragrant paddy, and 600 baht/ton (U.S. \$16/MT) lower for white rice paddy, a decrease of around 10 percent. Current intervention prices will be based on historical three-year average market prices. However, the new intervention prices are still higher than historical three-year average market prices, but close to current market prices in order to help farmers during the transition period. In the long run when market information, paddy central market, and agricultural futures market are fully developed, the intervention price program will be phased out in order to avoid market distortion.

Table: 2006/07 Main Crop Paddy's Intervention Prices (15% moisture contents)

Quality/Grade	2004/05	2005/06	2006/07
Fragrant rice (head rice = 36-42 grams)	9,700 - 10,000	9,700 - 10,000	8,700 - 9,000
White rice			
100%	6,600	7,100	6,500
5%	6,500	7,000	6,400
10%	6,400	6,900	6,300
15%	6,300	6,800	6,100
25%	6,200	6,700	5,900
Pathumthani fragrant rice	6,600	7,100	6,700 - 7,000
Glutinous rice 10% (mixed)	-	7,700	7,500
Glutinous rice (long grain)	-	7,500	7,700

Source: Department of Internal Trade, Ministry of Commerce

Like in the past, the rice intervention policy is implemented through a paddy mortgage program. Farmers will obtain a loan (no more than 350,000 baht (U.S. \$9,600)) from the Bank for Agriculture and Agricultural Cooperatives (BAAC) by mortgaging the paddy to the BAAC at the intervention prices during the harvest period, normally November – March for main crop and March – July for second crop. Farmers are allowed to redeem the paddy within 4 months. The loan rate is 3 percent, as the Government will subsidize the difference from the market rate (around 6 percent) to the BAAC. The Government is liable for those who do not redeem the paddy. In addition, monthly warehouse rental of 20 baht/ton (U.S. \$50 cents/MT) will be paid to farmers on the day they redeem the paddy, or the end of the redeem period. Farmers who do not have their own warehouses can participate in this program through the Commerce Ministry's Public Warehouse Organization. This organization operates through regional rice mills. As a result, farmers are able to mortgage paddy with rice millers who participate in this program. Farmers will collect warehouse receipts from millers and get the loans directly from the BAAC. They are allowed to redeem the paddy within 3 months. The maximum mortgage capacity of each miller is no more than 50 times of its milling capacity. Also, millers are required to buy paddy from the market no less than half of total mortgaged paddy. The Government will pay monthly storage and quality control costs to millers by 20 baht/tons when millers keep paddy more than 90 days. Millers will be responsible for rice quality until paddy is milled for delivery.

The target amount of paddy pledged for 2006/07 main crop is still set at 9 million tons, of which 5 million tons are fragrant paddy, 3 million tons are white rice paddy, and the rest are glutinous

paddy. The target amount accounts for about half of total main crop paddy production of around 20 million tons. The program starts on November 1, 2006 – February 28, 2007, except for the south, which starts February 1, 2007 – May 31, 2007.

The Impact of New Intervention Policy

MY 2006/07 intervention program will likely be less attractive, as the interim government set lower intervention prices. Normally, the amount of paddy pledged is lower than the target amount, even in the aggressive program over the past two years. Anticipated low intervention stocks will have positive impact on exports. Thai rice exports are expected to recover to 8.0 million tons in 2007, as Thai rice will become more price competitive, compared to the contraction during 2005 - 2006 to 7.0 - 7.3 million tons when intervention prices were set 20-30 percent higher than domestic market prices. Also, low carry-over stocks will smooth farm prices during the harvest of next crop, compared to current sharp contraction in farm prices. Both export recovery and stabilized farm prices will eventually benefit farmers in the long run. However, the Government has to find an effective way to manage the intervention stocks, particularly current large carry-over stock, in order to not to dampen farm prices. Presently, foreign buyers expect Thai rice export prices to decrease in anticipation of the government plan to release the carry-over intervention stocks.

End of Report.