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# GAIN Report

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## Thailand

### Grain and Feed

### Rice Intervention Program Incurs Losses

**2007**

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**Report Highlights:**

The result of the re-tender of intervention stocks acquired from a bankrupt exporter is expected to generate significant losses for the rice intervention program. The present Government will likely be conservative in future stock releases due to the dilemma of non-performing loans to rice millers and related downward pressure on domestic prices.

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

On September 12, the Government released 301,800 tons of 5% grade white rice for export and 16,715 tons for domestic sale from the re-tender of 558,598 tons of white rice acquired from bankrupt exporter (President Agri Trading). The Government re-acquired an estimated 1 million tons valued at 12 billion baht (\$353 million), of which 70-80 percent is white rice. Eventual compensation to the government is uncertain, and losses could go well beyond 700 million baht (\$20 million). Re-tender prices were 2,000 baht/ton (\$60/MT) lower than the bidding prices in 2005 when this bankrupt exporter won the tender, due to low quality of rice in the stocks. Losses will likely reach 1.2 billion baht (\$35 million) if the Government is forced to sell the balance at feed grade.

### Retender of the Intervention Stocks

#### : 5% grade white rice for exports

| Exporters               | Bidding           |                      | Result            |
|-------------------------|-------------------|----------------------|-------------------|
|                         | Quantity<br>(Ton) | Prices<br>(Baht/Ton) | Quantity<br>(Ton) |
| Chaiyaporn              | 87,811            | 8,850 - 8,910        | 87,800            |
| Phonglap                | 317,132           | 8,300 - 8,900        | 104,000           |
| Asia Golden Rice        | 57,933            | 8,650 - 8,850        | 57,900            |
| Capital Cereal          | 52,104            | 8,800                | 52,100            |
| Golden Lion Corporation | 22,964            | 7,500 - 8,210        | -                 |
| Choakanan Rice          | 15,710            | 7,500                | -                 |
| <b>Total</b>            | <b>553,653</b>    |                      | <b>301,800</b>    |

#### : 5% grade white rice for domestic sales

| Exporters                | Bidding           |                      | Result            |                      |
|--------------------------|-------------------|----------------------|-------------------|----------------------|
|                          | Quantity<br>(Ton) | Prices<br>(Baht/Ton) | Quantity<br>(Ton) | Prices<br>(Baht/Ton) |
| Chaiyaporn               | 16,715            | 8,800                | 16,715            | 8,850                |
| Phonglap                 | 16,715            | 8,300                | -                 | -                    |
| C.P. Inter Trade         | 45,103            | 8,000 - 8,050        | -                 | -                    |
| Phichit Ruamcharoen Mill | 28,388            | 7,510 - 8,010        | -                 | -                    |
| <b>Total</b>             | <b>106,921</b>    |                      | <b>16,715</b>     |                      |

Source: Department of Foreign Trade, Ministry of Commerce

The losses began in 2005 when President Agri Trading, which became one of the largest rice exporters in association with the previous government, was the sole recipient of tenders for MY 2004/05 white rice intervention stocks in the amount of 1.7 million tons for exports. In addition, the previous Government's intervention program was more aggressive in MY 2005/06. Paddy intervention stocks reached a record 7 million tons. Intervention prices were 300-500 baht/ton (roughly US\$ 8-13/MT) higher than year-earlier intervention prices. As a result, the company could export only around 0.7 million tons due to strong price competition from Vietnamese rice which was 20-30/MT cheaper over the past two years, as compared to a typical \$10/MT cheaper. President Agri Trading finally closed its largest rice silo business worth 650 million baht (\$19 million) in Phichit last month, as it could not service the accumulated debts of billions of baht.

The current Government holds total intervention stock of around 4 million tons of rice with

approximate annual overhead costs of around 1.2 billion baht (\$35 million), despite its less aggressive intervention policy in MY 2006/07. The government warehouses' capacity is less than half of outstanding stocks. The balance is stockpiled in almost all private rice mills, which are estimated to be in the business of around 2,000 – 3,000 mills, out of the total registration of 39,834 mills. Most rice mills reportedly have liquidity problems due to a strict credit policy under the current, less-aggressive government intervention policy. There are reports of illegal deliveries of rice for domestic sales in order to manage cash flows and buy back from the market when the officials inspect warehouses. Rice mills business will become a non-performing loan (NPL) if the Government aggressively inspects the warehouses and releases all the stocks in private warehouses. However, these NPL's are unlikely to affect the overall economy, as it accounts for less than 5 percent of total loan in the banking system. Nevertheless, the release of all government stocks will adversely affect domestic market prices as bumper new crops are anticipated in the next couple of months. Export expansion will be limited due to high freight costs and vessel shortages.

The Government is expected to be conservative in stock release plan in order not to dampen domestic price of rice and not to stimulate NPL in rice mill business.

End of Report.