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Report Name: Impact of Thailand's Free Trade Agreements with Australia and New Zealand on US Dairy Exports to Thailand

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Report Highlights:

The import tariffs and quotas for some Australian and New Zealand dairy products (including whole milk powder, whey, cheese, and anhydrous milk) were removed on January 1, 2021, while import tariffs and quotas for milk, cream, flavored milk, and skim milk powder will be eliminated in 2025. The removal of the import tariffs and quotas for Australian and New Zealand dairy products will impact the competitiveness of U.S. dairy products (skim milk powder and cheeses) in the Thai dairy market, which is already highly competitive and price sensitive. The export of both skim milk powder and cheese to Thailand was nearly U.S. \$20 million in 2019.

Impact of Thailand's Free Trade Agreements with Australia and New Zealand on U.S. Dairy Exports to Thailand

Thailand's domestic raw milk supply is insufficient to meet the country's demand as almost all domestic raw milk supply is directed toward producing liquid milk for ready-to-drink milk and school milk.

Thailand's major dairy exports are pasteurized and ultra-high-temperature (UHT) milk, condensed milk, evaporated milk, ice cream, drinking yogurt, yogurt, and butter. Almost all of Thailand's dairy exports are produced from imported dairy products including concentrated milk and cream (skimmed and whole milk powder). These are important raw materials for Thailand's dairy food processing. The country's major export markets are ASEAN countries including Myanmar, Laos, Cambodia, Malaysia, Singapore, and Philippines. In 2019, Thailand exported U.S. \$389 million of dairy products, an 8.7 percent increase from the previous year.

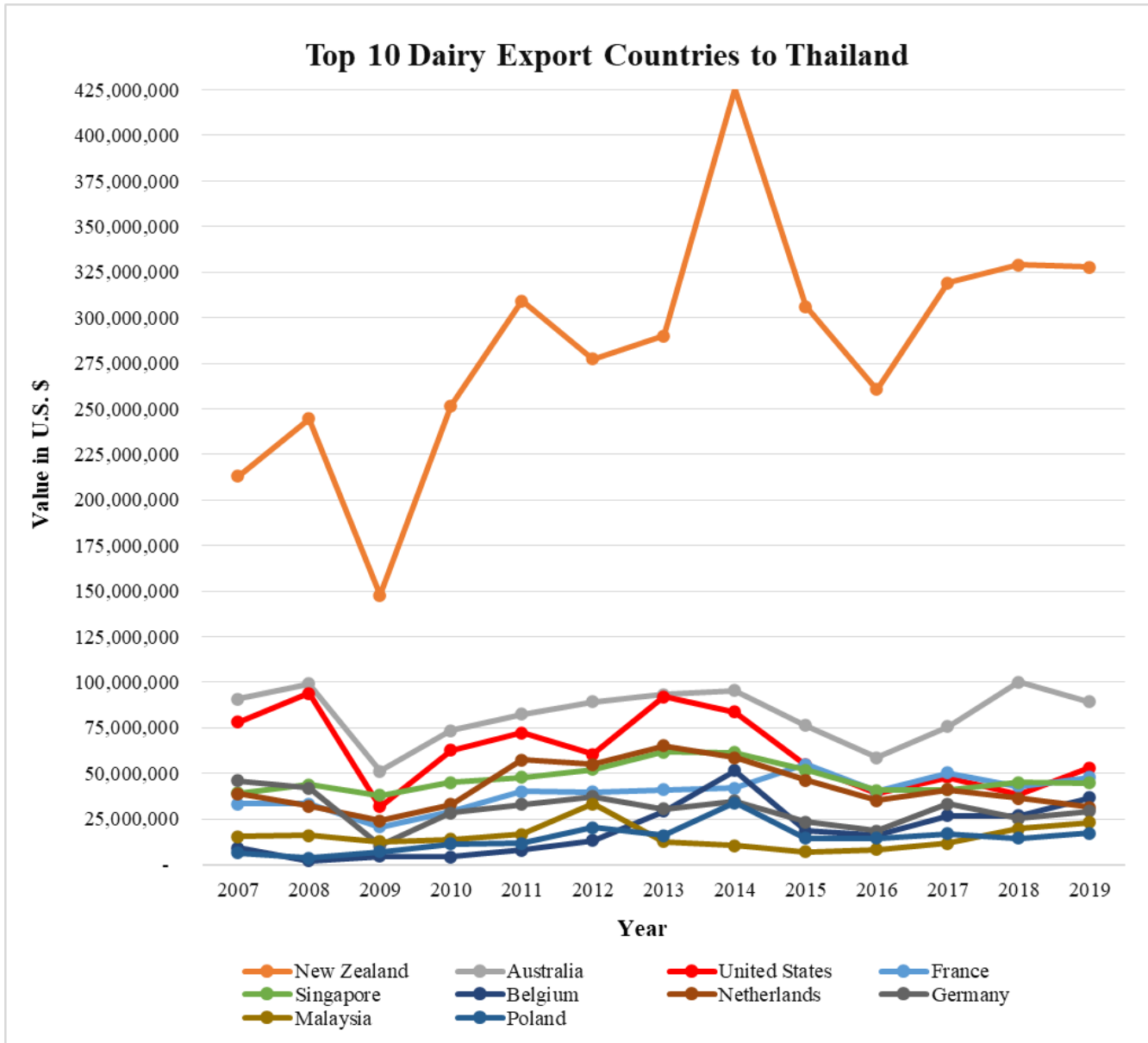
Table 1: Thailand Milk Production 2016 – 2021

Item	2016	2017	2018	2019	2020 ¹	2021 ¹
Number of dairy cows	626,193	645,270	676,415	701,211	716,800	731,527
Raw milk production (tons)	1,214,193	1,210,482	1,277,654	1,284,177	1,371,133	1,398,700
Domestic milk consumption (tons)	1,156,569	1,150,325	1,213,494	1,196,847	1,255,046	1,302,739

Source: Office of Agriculture Economic, Ministry of Agriculture and Cooperatives

^{1/} Estimated

The value of imported dairy products was U.S. \$807 million in 2019. Imports of dairy products have grown at a compound annual growth rate (CAGR) of 2.3 percent by value since 2010. The top three leading exporters of dairy products to Thailand are New Zealand (40.6 percent market share), Australia (11.1 percent), and the United States (6.6 percent). New Zealand and Australia together make up about 50 percent of Thailand's dairy imports and have free trade agreements (FTAs) with Thailand.



Source: Trade Data Monitor and USDA Foreign Agricultural Service - Bangkok, Thailand

The Thailand Australia Free Trade Agreement (TAFTA) went into effect on January 1, 2005, while the Thailand New Zealand Closer Economic Partnership (TNZCEP) became effective on July 1, 2005. These two free trade agreements are the most comprehensive in product coverage and are the first bilateral trade agreements into which Thailand has entered. These FTAs provide significant quantities of duty-free dairy product access to Thailand in ways that will make it challenging for U.S. dairy exporters to compete.

Import tariffs and import quotas under Special Safeguard measures (SSG) for Australian and New Zealand dairy products, such as whole milk powder, whey, cheese, and anhydrous milk, were eliminated under TAFTA and TNZCEP on January 1, 2021, while import tariffs and import quotas for milk and cream, flavored milk, and skim milk powder will be eliminated in 2025. Thailand imported U.S. \$327.7

million worth of dairy products from New Zealand in 2019 and U.S. \$89.2 million worth of dairy products from Australia. Thailand's dairy imports from New Zealand have grown at a compound annual growth rate (CAGR) of 5.2 percent by volume and 2.7 percent by value since 2010, which is more than the growth of dairy imports from all countries. Dairy import from all countries grew at a CAGR of 4.6 percent in volume and 2.3 percent by value since 2010. Thailand's main dairy imports from New Zealand are whole milk powder, skim milk powder, butter, buttermilk, caseinates, whey, and cheese.

Milk processing in Thailand is dominated by large processing businesses such as CP Meiji, Nestle, FrieslandCampina Thailand, The Thai Dairy Industry, and Dutch Mill. These companies are also the largest importers of dairy products, which they use as ingredients in their recombined milk products and other dairy foods destined for the domestic market and for export. Total removal of tariffs and special safeguards of Australian and New Zealand dairy ingredients will significantly reduce the costs of their dairy products used as ingredients.

Table 2: Raw Milk Costs and Prices 2015 – 2019

Items	2015	2016	2017	2018	2019
Raw milk cost (Baht/kg)	14.17	14.55	14.31	14.21	14.27
Selling Price by Farmers (Baht/kg)	17.74	18.02	18.08	18.21	18.30
Ex Factory Price (Baht/kg)	19.00	19.00	19.00	19.00	19.00

Source: Office of Agriculture Economic, Ministry of Agriculture and Cooperatives

Among U.S. dairy exports to Thailand, both skim milk powder and cheeses are foreseen to be the most impacted from the removal of the import tariff under TNZCEP and TAFTA.

Skim Milk Powder:¹

Table 3: Skim Milk Powder Tariff Rates and Quotas

Tariff Rate under WTO:	5% (under quota) and 216% (over quota)
Quota under WTO:	55,000 tons
Tariff Rate under TNZCEP:	5% (under quota) and 194.4% (over quota)
Quota under TNZCEP:	n/a
Tariff Rate Under TAFTA:	<ul style="list-style-type: none"> • 4% for 2021(under quota) and will be zero in 2025 and 194.4% (over quota) • Tariff and quota will completely be removed by January 1, 2025
Quota under TAFTA:	3,875.90 tons (2021)

Thai dairy producers cannot produce enough skim milk to meet the demand of Thai consumers and need the imported skim milk powder for their dairy processing. Thailand is bound by the WTO to import at least 50,000 tons of skim milk powder a year with tariff rates of 20 % (actual applied rate is 5% and with a quota allocation of 55,000 tons), but, in practice, the Thai government has given more access of an amount greater than this committed volume due to strong demand from these dairy processors. Therefore, Thailand has opened its market to allow more skim milk powder imports, importing around 70,000 tons of skim milk powder a year. Under TAFTA, Thailand granted specific quotas of 3,312.74

¹ (HS Codes: 0402.10.41, 0402.10.42, 0402.10.49, 0402.10.91, 0402.10.92, and 0402.10.99)

tons for 2016-2019 and 3,875.90 tons for 2020-2024 for Australian skim milk powder per year. The import tariff rate of Australian skim milk powder is gradually decreasing 1 percent every year until phasing down to 0 percent in 2025.

Table 4: Thailand Skim Milk Powder Imports (in thousands U.S. \$)

Country	2015	2016	2017	2018	2019	% Share
New Zealand	72,685	55,338	58,843	49,650	55,228	34.0%
Belgium	15,268	11,844	19,833	20,381	30,610	18.8%
Australia	35,985	15,687	19,577	26,905	17,818	11.0%
USA	21,118	10,130	10,981	7,882	12,814	7.9%
France	15,864	2,411	3,809	2,758	11,602	7.1%
Other	45,623	26,929	40,324	28,779	34,453	21.2%
Total	206,543	122,338	153,368	136,354	162,524	100.0%

Source: Trade Data Monitor and USDA Foreign Agricultural Service - Bangkok, Thailand

Table 5: Thailand Skim Milk Powder Imports (in tons)

Country	2015	2016	2017	2018	2019	% Share
New Zealand	29,164	27,138	24,653	24,012	22,711	33.2%
Belgium	6,257	5,279	8,599	10,500	13,141	19.2%
Australia	14,680	7,506	7,541	12,564	6,746	9.9%
USA	8,259	4,839	4,791	3,863	5,541	8.1%
France	6,120	1,171	1,675	1,536	4,941	7.2%
Other	17,969	12,417	17,061	14,439	15,257	22.3%
Total	82,449	58,350	64,320	66,914	68,337	100.0%

Source: Trade Data Monitor and USDA Foreign Agricultural Service - Bangkok, Thailand

The complete tariff and quota removal for skim milk powder in 2025 as per TAFTA will inevitably impact the U.S. export of skim milk powder to Thailand as the import tariff of Australian skim milk powder will reach zero in 2025 compared to 5 percent for U.S. exports. While New Zealand skim milk powder will still face the same import tariff as the U.S. skim milk powder, except for out of quota imports, the taste and specification preference as well as lower unit cost are their major competitive advantages over U.S. skim milk powder. However, strong and consistent market visits, R&D, and technical assistance for food and beverage manufacturers is the key approach for the U.S. skim milk powder industry to take to gain more market share in the Thai market.

Cheese:

Table 6: Cheese Tariff Rates and Quotas

Tariff Rate under WTO:	30%
Tariff Rate Under TNZCEP:	Tariff and quota completely removed on January 1, 2021
Tariff Rate Under TAFTA:	Tariff and quota completely removed on January 1, 2021

Table 7: Thailand Cheeses Imports (in thousands U.S. \$)

Country	2015	2016	2017	2018	2019	% Share	Jan – Nov		% Change
							2019	2020	
Australia	13,171	15,761	15,214	21,536	24,858	28.7%	23,907	25,129	5.11
New Zealand	19,717	21,060	19,062	26,384	19,811	22.9%	18,661	21,964	17.70
USA	5,361	5,813	8,149	6,505	7,321	8.5%	6,952	6,854	-1.40
France	3,563	4,188	4,826	5,313	5,484	6.3%	5,062	3,877	-23.41
Italy	2,706	2,841	4,287	4,741	4,863	5.6%	4,498	2,999	-33.33
Belgium	1,458	3,076	5,689	5,044	4,525	5.2%	4,112	3,133	-23.81
Germany	2,881	3,186	3,646	3,929	3,242	3.7%	3,010	2,264	-24.79
UK	352	1,121	2,365	2,592	2,577	3.0%	2,315	1,116	-51.79
Switzerland	695	1,335	1,653	2,386	2,566	3.0%	2,429	952	-60.81
Netherlands	1,202	1,437	1,550	2,237	2,289	2.6%	2,068	1,430	-30.85
Other	5,459	5,507	9,014	8,950	9,078	10.5%	7,953	6,792	-14.60
Total	56,564	65,325	75,455	89,615	86,613	100.0%	80,967	76,510	-5.50

Source: Trade Data Monitor and USDA Foreign Agricultural Service - Bangkok, Thailand

Table 8: Thailand Cheeses Imports (in tons)

Country	2015	2016	2017	2018	2019	% Share	Jan – Nov		% Change
							2019	2020	
Australia	2,986	3,790	3,182	4,262	5,070	29.9%	4,897	5,283	7.88
New Zealand	4,535	5,081	4,156	5,535	4,368	25.7%	4,112	4,949	20.36
USA	1,145	1,384	1,725	1,293	1,529	9.0%	1,462	1,352	-7.52
Belgium	480	932	1,303	1,192	1,123	6.6%	1,018	770	-24.36
Italy	544	471	612	688	748	4.4%	678	425	-37.32
France	483	607	663	661	716	4.2%	674	539	-20.03
Germany	726	702	754	848	705	4.2%	657	419	-36.23
UK	31	220	451	518	512	3.0%	442	226	-48.87
Austria	6	23	28	186	436	2.6%	348	324	-6.90
Netherlands	228	294	259	372	363	2.1%	322	217	-32.61
Other	873	1,126	1,766	1,540	1,406	8.3%	1,285	1,311	2.02
Total	12,037	14,630	14,899	17,095	16,976	100.0%	15,895	15,815	-0.50

Source: Trade Data Monitor and USDA Foreign Agricultural Service - Bangkok, Thailand

The removal of the tariff and quota for cheese under TAFTA and TNZCEP will significantly impact U.S. cheese competitiveness in the Thai market as U.S. cheese imports still face an import duty of 30 percent. However, there remain opportunities for U.S. cheese in the Thai market. Demand for cheese continues to increase in multiple sectors including the food processing sector (both for reprocessing and food ingredients), the food service sector (mainly restaurant chains), and the retail sector due to a higher consumption and preferences for cheese from Thai consumers. The growing acceptance of cheese consumption has been well recognized, particularly among younger Thais as cheese is used in foods and desserts such as pasta, pizza, salads, cheesecake, and more. In addition, food manufacturers and food service operators have incorporated cheese into new product lines and new dishes, such as cheese instant noodles, cheese dipping sauces for French fries, BBQ, and toasts. In addition, food manufacturers have developed snacks with cheese to differentiate themselves and make their products more interesting. The success of U.S. cheese in Thailand will depend on strong and continuous marketing campaigns aimed at strengthening awareness of the authenticity and quality of U.S. dairy ingredients by introducing interesting product uses, packaging, and presentations.

Table 9: Dairy Product Import Tariff Table

Products	TAFTA	TNZCEP	WTO
Skim Milk Powder	- 4% for 2021(under quota) and will phase to zero in 2025 and 194.4% (over quota) - Tariff and quota will completely be removed by January 1, 2025	- Same as WTO (under quota) and 194.4% (over quota)	5% (under quota) 216% (over quota)
Milk powder and milk for infant	Zero	Zero	5%
Liquid milk and cream	- 4% for 2021(under quota) and will phase to zero in 2025 and 36.9% (over quota) - Tariff and quota will completely be removed by January 1, 2025	- 4% for 2021(under quota) and will phase to zero in 2025 and 36.9% (over quota) - Tariff and quota will completely be removed by January 1, 2025	20% (under quota) 41% (over quota)
Drinking milk (UHT)	- 4% for 2021(under quota) and will phase to zero in 2025 and 75.6% (over quota) - Tariff and quota will completely be removed by January 1, 2025	- 4% for 2021(under quota) and will phase to zero in 2025 and 75.6% (over quota) - Tariff and quota will completely be removed by January 1, 2025	20% (under quota) 84% (over quota)
Cheeses	Zero	Zero	30%
Whole milk powder	Zero	Zero	18%
Butter milk	Zero	Zero	18%
Whey powder	Zero	Zero	5%
Butter	Zero	Zero	30%
Lactose	Zero	Zero	Zero (under quota) 10% (over quota)

ANNEX: Thailand's Import Statistics of Other Dairy Products Included Under TAFTA and TNZCEP Agreements

Table A: Thailand Whey Powder Imports (in thousands U.S. \$)

Country	2015	2016	2017	2018	2019	% Share
USA	12,983	13,990	15,707	12,163	16,020	21.4%
France	18,729	17,795	22,809	13,829	12,626	16.8%
Australia	3,543	3,584	5,077	5,321	5,876	7.8%
Czech Republic	3,835	1,848	1,097	4,958	5,707	7.6%
Germany	4,085	3,981	6,567	5,843	5,104	6.8%
Other	32,943	19,043	26,885	19,333	29,602	39.5%
Total	76,119	60,241	78,142	61,449	74,936	100.0%

Source: Trade Data Monitor and USDA Foreign Agricultural Service - Bangkok, Thailand

Table B: Thailand Milk Powder and Milk Food for Infant Feeding Imports (in thousands U.S. \$)

Country	2015	2016	2017	2018	2019	% Share
Singapore	50,022	40,608	40,824	44,800	44,640	73.0%
Philippines	21,372	12,838	9,750	11,953	8,812	14.4%
New Zealand	10,343	10,678	11,110	12,504	5,153	8.4%
Netherlands	1,955	837	443	1,171	1,618	2.6%
Malaysia	0	0	0	0	581	0.9%
Spain	165	242	244	189	226	0.4%
USA	1	4	72	98	134	0.2%
Switzerland	1	1	1	1	1	0.0%
Japan	1	96	15	0	1	0.0%
France	0	0	0	0	0	0.0%
Other	149	11,081	0	0	0	0.0%
Total	84,011	65,315	62,459	70,717	61,166	100.0%

Source: Trade Data Monitor and USDA Foreign Agricultural Service - Bangkok, Thailand

Table C: Thailand Whole Milk Powder Imports (in thousands U.S. \$)

Country	2015	2016	2017	2018	2019	% Share
New Zealand	117,899	98,294	131,683	144,240	149,150	86.6%
Australia	5,808	4,678	13,520	20,219	13,382	7.8%
Malaysia	115	1,744	1,844	1,154	2,982	1.7%
Ireland	2	955	5,712	8,914	1,649	1.0%
South Korea	15	0	1	2,943	1,610	0.9%
USA (Ranked #15)	1	0	5	6	26	0.0%
Other	1,910	1,953	4,432	4,869	3,451	2.0%
Total	125,749	107,623	157,196	182,344	172,250	100.0%

Source: Trade Data Monitor and USDA Foreign Agricultural Service - Bangkok, Thailand

Table D: Thailand Import Anhydrous Milk Fat (in thousands U.S. \$)

Country	2015	2016	2017	2018	2019	% Share
Belgium	46	548	337	449	149	59.1%
Netherlands	1	1	1	1	103	40.9%
New Zealand	562	0	0	327	0	0.0%
Total	608	549	338	777	252	100.0%

Source: Trade Data Monitor and USDA Foreign Agricultural Service - Bangkok, Thailand

Table E: Thailand Buttermilk Imports (in thousands U.S. \$)

Country	2015	2016	2017	2018	2019	% Share
New Zealand	27,804	21,881	21,922	18,215	24,647	55.5%
Germany	1,837	559	1,861	1,814	3,658	8.2%
Netherlands	5,678	3,140	3,986	3,201	3,060	6.9%
France	2,190	1,994	2,110	1,635	3,042	6.9%
Finland	4,009	3,243	4,270	5,393	2,948	6.6%
USA	1,560	259	3	1,251	2,891	6.5%
Other	6,816	8,342	3,544	4,664	4,129	9.3%
Total	49,893	39,417	37,695	36,173	44,375	100.0%

Source: Trade Data Monitor and USDA Foreign Agricultural Service - Bangkok, Thailand

Table F: Thailand Caseinates Imports (in thousands U.S. \$)

Country	2015	2016	2017	2018	2019	% Share
New Zealand	17,768	14,965	12,653	19,944	15,985	48.3%
Poland	7,542	7,526	6,206	8,560	9,453	28.6%
Netherlands	3,366	2,757	2,498	2,589	3,626	11.0%
Germany	3,390	3,117	9,525	3,881	3,045	9.2%
China	0	51	151	457	369	1.1%
USA	118	92	214	116	257	0.8%
Other	1,408	683	629	513	339	1.0%
Total	33,592	29,191	31,876	36,061	33,073	100.0%

Source: Trade Data Monitor and USDA Foreign Agricultural Service - Bangkok, Thailand

Table G: Thailand Lactose Imports (in thousands U.S. \$)

Country	2015	2016	2017	2018	2019	% Share
USA	10,835	5,854	9,403	6,871	9,302	39.8%
Germany	3,800	4,476	3,979	4,572	6,081	26.0%
New Zealand	2,394	1,973	2,614	2,571	2,898	12.4%
Denmark	68	786	458	1,839	1,280	5.5%
Israel	776	647	473	178	1,200	5.1%
Other	5,200	3,789	3,992	2,065	2,640	11.3%
Total	23,073	17,526	20,919	18,096	23,401	100.0%

Source: Trade Data Monitor and USDA Foreign Agricultural Service - Bangkok, Thailand

Table H: Thailand Butter Imports (in thousands U.S. \$)

Country	2015	2016	2017	2018	2019	% Share
New Zealand	3,293	4,245	6,159	7,631	7,078	50.8%
France	2,449	2,690	2,647	3,696	4,489	32.2%
Belgium	242	260	605	740	822	5.9%
Denmark	508	551	223	562	570	4.1%
Finland	0	388	643	1,197	472	3.4%
USA (Rank#14)	1	93	112	29	203	1.5%
Other	82	166	174	370	300	2.2%
Total	6,574	8,393	10,561	14,224	13,933	100.0%

Source: Trade Data Monitor and USDA Foreign Agricultural Service - Bangkok, Thailand

Table I: Thailand Flavored Milk Imports (in thousands U.S. \$)

Country	2015	2016	2017	2018	2019	% Share
South Korea	0	0	82	91	119	88.1%
Australia	0	0	0	9	7	5.5%
Singapore	0	0	2	1	2	1.5%
Spain	0	0	11	0	2	1.3%
Malaysia	0	0	0	-	2	1.2%
Other	0	0	112	37	4	3.2%
Total	0	0	197	139	135	100.0%

Source: Trade Data Monitor and USDA Foreign Agricultural Service - Bangkok, Thailand

End of the Report.

Attachments:

No Attachments.