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Date: 2/26/2015

GAIN Report Number: TH5023

Thailand

Post: Bangkok

Thai Government Increased Domestic Palm Oil Availability

Report Categories:

Trade Policy Monitoring

Trade Policy Incident Report

Oilseeds and Products

Approved By:

Bobby Richey, Agricultural Counselor

Prepared By:

Sakchai Preechajarn, Agricultural Specialist

Report Highlights:

The Thai Cabinet increased domestic palm oil supplies for cooking by at least 110,000 metric tons in February 2015 thru imports and a reduction in biodiesel mandates. These actions were reportedly taken to address concerns about cooking oil supplies prior to new crop palm oil being available in March.

Palm oil accounts for about 60 percent of all cooking oil in Thailand.

Executive Summary:

Dry weather early in 2014 resulted in smaller production of crude palm oil in Thailand. In order to avoid a potential shortage, the Thai Cabinet agreed on January 20, 2015 to allow one-time imports of 50,000 metric tons (MT) of crude palm olein oil and lowered the mandatory vegetable oil content requirement in biodiesel by 50 percent which will free another 60,000 MT of palm oil available per month. Palm cooking oil accounts for about 60 percent of total cooking oil in Thailand. Reportedly the biodiesel mandate will be restored once domestic supplies of cook oil are restored after domestic new crop oil palm kernel becomes available March.

Dry weather throughout Thailand in 2014 effected agricultural production across the board, including fresh fruit bunches (FFB) of oil palm. As a result crude palm oil (CPO) crushers in southern Thailand have reported that deliveries of FFB of oil palm from farmers dropped significant beginning in October, 2014. FFB prices paid to farmers jumped from 4.80-5.0 baht/kg (\$150-156/MT) in October 2014 to 5.80-6.20 baht/kg (\$181-194/MT) in December, 2104. Overall, crushers estimate that total CPO production for CY 2014 declined to 2.0 million metric tons (MMT) from 2.2 MMT in 2013.

With the drop in output, available stocks of CPO began to reach dangerously low levels in November-December 2014. This prompted the Thai Cabinet on January 20, 2015 to allow one-time imports of 50,000 metric tons (MT) of crude palm olein oil and to lower the mandatory vegetable oil content requirement in biodiesel by 50 percent (from the mandate of B7 to B3.5) which will free another 60,000 MT of palm oil available per month. Palm cooking oil accounts for about 60 percent of total cooking oil in Thailand.

The imports were conducted by a state enterprise called Public Warehouse Organization (PWO). The first 9,000 MT of crude palm olein oil was imported from Malaysia in late January. Another 4 lots, totaling 41,000 MT, arrived in mid-February. The imported product is being distributed to 11 palm oil refineries for refining into cooking palm olein oil. Retail prices for cooking oil in Thailand are controlled and cannot exceed 42 baht/liter (\$1.31/liter).

The Cabinet's approval on imports initially generated frustration from oil palm growers. A farmer group, called Oil Palm Growers Federation of Thailand, voiced opposition to the government's decision. The government reacted to the criticism by convening key leaders, convincing them that the imports will not hurt palm growers and promising that farm prices for new crop fresh oil palm would not be below 5.00 baht/kg (\$156/MT). If prices fell further, the government committed to unspecified market intervention measures. Currently, the prevailing farm price for fresh oil palm ranges is about 6.00-6.20 baht/kg (\$188-194/MT).

According CPO crushers in southern Thailand, the government responded well to the situation, making all stakeholders (farmers, crude palm oil crushers, and palm refineries) happy. In particular, the government is being given credit for making headway against smuggled palm oil imports from Malaysia and Indonesia where crude palm oil prices are significantly lower than in Thailand. For example,

current domestic prices for CPO are running about 35-36 baht/kg (\$1,094-1,125/MT) compared to world market prices, quoted at about \$700/MT.