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Thailand

Poultry and Products Annual

2019

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Report Highlights:

Thailand's chicken production, domestic consumption, and exports are expected to further grow in 2019 and 2020.

Executive Summary:

After facing losses across the board in 2018, the Thai broiler industry turned profitable in 2019 due to increased prices for all product chains (i.e. chicken meat, live broilers, and day-old chicks). Broiler growers are also enjoying reduced production costs in 2019.

Thailand is not a low-cost producing country due mainly to market distortion from domestic feed ingredients and increasing labor costs. However, Thailand successfully increased its exports over the years and this trend is likely to continue because of improving farm productivity, strict animal disease and food safety control, and sophisticated development of end-products.

Thai broiler meat production is forecast at 3.23 million metric tons (MMT) in 2020, 6 percent growth from the 2019 level, due to anticipated growth in export and domestic demand. Meanwhile, domestic consumption of chicken meat (broiler meat and other non-broiler chicken meat) is expected to grow 3 percent in 2020. Exports of chicken meat in 2020 should also continue to increase another 7 percent to 1.02 MMT, in anticipation of continued growth in exports to Japan and other non-EU markets such as China, South Korea, and Association of Southeast Asian Nations (ASEAN). The export outlook in the EU market in 2020 is still vulnerable from the coming impact of BREXIT, scheduled to begin on October 31, 2019, on the EU chicken meat quota for exporting countries, including Thailand.

Tyson Foods, Inc., a U.S.-based company, acquired on June 3, 2019, the Thai and European poultry businesses from BRF S.A., including four poultry production facilities in Thailand with a total processing capacity of about 90 million broiler birds per annum. This development, however, should not affect existing Thai processors in both domestic and international markets.

Production

Table 1: Thailand's Production, Supply and Demand for Chicken Meat (Unit: 1,000 Metric Tons)

Meat, Chicken Market Begin Year	2018		2019		2020	
	Jan 2018		Jan 2019		Jan 2020	
Thailand	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	88	88	80	80	0	42
Production	3170	3170	3280	3300	0	3490
Total Imports	2	2	2	2	0	2
Total Supply	3260	3260	3362	3382	0	3534
Total Exports	835	835	935	950	0	1020
Human Consumption	2345	2345	2352	2390	0	2450
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	2345	2345	2352	2390	0	2450
Total Use	3180	3180	3287	3340	0	3470
Ending Stocks	80	80	75	42	0	64
Total Distribution	3260	3260	3362	3382	0	3534

(1000 Metric Tons)

Note: 1) Chicken meat is defined as meat of domestic fowl (*Gallus gallus*/*Gallus domesticus*) including all chickens: broiler, layer, hybrid, domestic breeds, spent hens, ex-breeding stock, etc.; and 2) Since broiler meat sector dominates chicken meat production, accounting for 92 percent in 2019, narratives in this report focus on production, consumption, and trade of broiler meat.

After facing losses across the board in 2018, the Thai broiler industry turned profitable in 2019 due to increased prices for all product chains (i.e., chicken meat, live broilers, and day-old chicks). Despite a decline in chick production by independent breeders in early 2019, lucrative prices should drive total broiler meat production in 2019 to grow by 4 percent to 3.05 million metric tons (MMT). Thai broiler meat production is forecast to further grow by 6 percent to 3.23 MMT in 2020 due to anticipated growth in export and domestic demand.

About 10-12 integrated processors operating feed milling, day-old chick farming, broiler farming, and broiler meat processing cover about 80 percent of total broiler meat production in Thailand. The rest of production is by independent broiler growers. Due to a sharp increase in their broiler production, some of these independent broiler growers have built their own broiler slaughterhouses and develop domestic markets for broiler meat to absorb their increased supplies of live broilers.

Most of the integrated processors not only produce day-old chicks for their own use but also buy day-old chicks from 8-10 large independent chick breeders. In the meantime, these independent breeders also supply day-old chicks to independent broiler growers. Chick production capacity from both integrated processors and independent breeders is estimated at currently 40 million birds/week.

There have been no serious animal disease incidences for the Thai broiler industry in recent years, mainly because Thailand has improved farming facilities and on-farm bio-security measures to mitigate food safety challenges and animal health concerns such as Highly Pathogenic Avian Influenza (HPAI) and other diseases. Nearly all broiler houses are equipped with evaporative cooling systems which reduce disease exposure and mortality rates. Department of Livestock Development (DLD) and the Thai chicken industry continue to monitor closely their disease control and surveillance practices for HPAI.

The Thai broiler industry has utilized new technologies including improved genetics, farm management, and feed nutrition. The average weight of fully grown broilers at slaughter is currently 2.4-2.5 kilograms per bird, compared to 2.0-2.1 kilograms per bird in the mid-2000s. The number of days it takes to raise one-day old chicks to market delivery size dropped to 40-42 days from 49 days, and average feed conversion ratio (FCR) decreased to 1.6-1.7 from 1.9-2.0 over the same period.

Production Cost Challenges

Thailand is not a low-cost producing country due mainly to market distortion from domestic feed ingredients and increasing labor costs. However, Thailand successfully increased its exports over the years and this trend is likely to continue because of improving farm productivities, strict animal disease and food safety control, and sophisticated development of end-products. Domestic prices for corn, which accounts for about 60 percent in broiler feed rations, are currently about 20-30 percent higher than the global market prices as a result of the Thai government's market interventions. Feed costs generally accounts for 60-65 percent of production costs for live broiler.

Despite the fact that domestic corn supplies can meet only about 30-50 percent of total demand for feed milling, the Thai government limits imports of corn, in order to protect domestic corn growers, through a constant tariff-rate-quota (TRQ) of 55,000 MT per annum, as Thailand committed to the WTO. In addition, the government continues to maintain a requirement that corn importers/feed mills must absorb 3 units of domestic corn for every unit of imported feed wheat (3:1), while the government sets the minimum purchase price for domestic corn at 8 baht/kg (U.S. \$240/MT) for feed mills.

Production Costs and Return in 2019

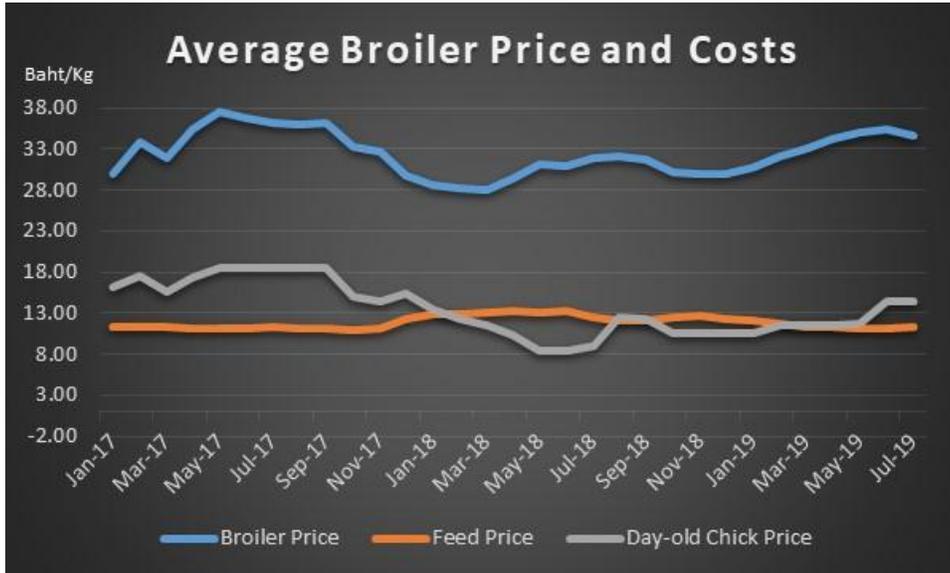
Broiler growers are enjoying higher broiler prices and reduced production costs in 2019. Live broiler prices began to recover in late 2018, rising from 30.0 baht/kg (U.S. \$0.44/pound) in December 2018 to 34.69 baht/kg (U.S. \$0.52/pound) in July 2019, in response to increased export demand and a scale down in production from independent chick breeding farms.

Meanwhile, average production costs dropped from 34 baht per kilogram of live broiler weight (U.S. \$0.50/pound) in December 2018 to 32 baht/kg (U.S. \$0.47/pound) in July 2019. The current average production costs of 31-32 baht per kilogram of live broiler weight (U.S. \$0.46/pound) in August 2019 consist of day-old chicks (5 baht), feed (19-20 baht), vaccination and drugs (2 baht), and labor and other costs (5 baht).

Domestic prices for three major feed ingredients (corn, soybean meal, and fishmeal, which altogether account for about 90-95 percent in feed rations) declined from an average of 12.33 baht/kg (U.S. \$0.18/pound) in December 2018 to 11.26 baht/kg (U.S. \$0.17/pound) in July 2019. On the other hand, chick prices recovered from 10.50 baht/head (0.34/head) in December 2018 to 14.50 baht/head (U.S. \$0.47/head) in July 2019.

Table 2 illustrates fluctuations in prices for live broiler prices, feed, and day-old chicks from 2017 to July 2019.

Table 2: Prices for Live Broiler, Feed, and Day-old Chicks (Baht/kg)



Source: Thai Feed Mill Association

Note:

1) U.S. \$1.00 = 30.81 Baht;

2) Feed price is an average of the three main feed ingredients (corn, soybean meal, and fishmeal) being weighted by its component in feed rations.

Consumption

Chicken meat is the most popular meat among Thai consumers due to its less expensive prices than pork and beef and its diversity in cooking methods and menu items. Domestic consumption in Thailand has high growth potential from growing per capita consumption, an expansion in urbanization, and increased eating-out lifestyle.

Table 3 shows a number of supermarkets, convenient stores, and quick service restaurants from 2015-2018.

Table 3: A Number of Supermarkets, Convenient Stores, and Quick Service Restaurants (QSR) in Thailand

	2015	2016	2017	2018
Convenient Stores	11,797	12,644	13,738	14,403
Supermarkets	175	188	204	214
Chicken QSR	741	798	853	955
Burger QSR	316	341	382	411

Source: Euromonitor International, and USDA/FAS/Bangkok

Domestic consumption of chicken meat is estimated to grow by only 2 percent in 2019 in anticipation of a slow economic growth from 4.1 percent in 2018 to an estimated 3.2-3.3 percent in 2019 and higher prices for chicken meat. Consumption in 2020 should continue to grow at 3 percent in response to an expansion in modern trade stores and quick service restaurants (QSR).

Retail prices for both boneless breast meat and leg-quarters remain unchanged from November 2018 to April 2019. However, average retail prices for boneless chicken breast meat for the first eight months of 2019 (Jan-Aug) slightly increased by 2 percent to 69.29 baht/kg (U.S. \$1.02/pound) compared to 68.28 baht/kg (U.S. \$1.01/pound) in the same period of 2018. Retail prices for leg-quarters in the first eight months of 2019 (Jan-Aug) are basically unchanged at 68.70 baht/k (U.S. \$1.01/pound) (Table 4).

Table 4: Bangkok Retail Prices for Chicken Meat



Source: Department of Internal Trade, Ministry of Commerce

Note: U. S. \$1.00 = 30.81 baht

Trade

Export Market Reopens

After Thailand requested China to officially open the market to Thailand in late 2017, China began to conduct plant audits in Thailand in 2018 and 2019. Thus far, 7 Thai processing plants out of 19 audited plants are approved for export eligibility.

The EU lifted its ban on imports of Thai frozen uncooked chicken in July 2012, followed by Japan in December 2013, other countries that lifted their HPAI bans on uncooked Thai frozen chicken meat include Hong Kong, South Africa, Bahrain, Russia, United Arab Emirates (UAE), and Qatar. South Korea also lifted its longstanding ban on Thai uncooked chicken meat in November 2016.

Export Trend

Thai chicken meat exports are forecast to further increase to 1.02 MMT in 2020 due to anticipated continued growth in exports to Japan and other non-EU markets such as China, South Korea, and the ASEAN countries.

In the first seven months of 2019 (Jan-Jul), chicken meat exports (both cooked and uncooked) increased by 8 percent to 508,606 MT from 470,883 MT in the same period of 2018.

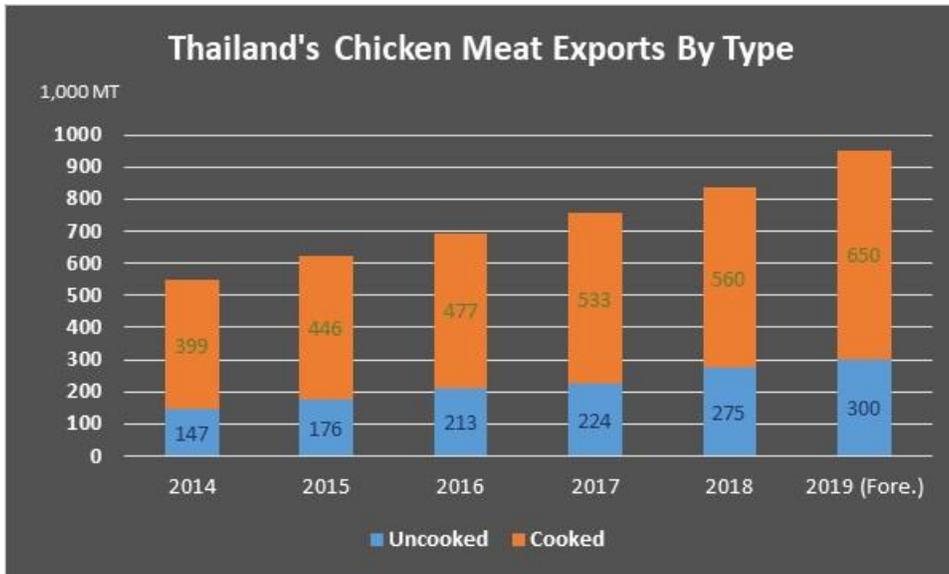
By product type, exports grew by 7 percent for uncooked products and 9 percent for cooked products.

By destination, exports to Japan in the first 7 months (Jan-Jul) dropped by 2 percent, from 235,231 MT in the same period of 2018 to 230,863 MT, reflecting a sharp reduction in exports of uncooked chicken meat, from 81,248 MT to 65,030 MT, as a result of reduced demand in Japanese's chick processing industry. Exports to the EU increased by 8 percent from 126,275 MT in 2018 (Jan-Jul) to 136,549 MT in 2019 (Jan-Jul) because several buyers in the EU built up their own stocks in preparation for Britain's exit from the EU (BREXIT). Growth of exports to the EU only belongs to cooked chicken meat since its continued stringent EU measures on Salmonella discouraged Thai exporters from exporting uncooked products there. Exports to China increased tremendously, almost 10 times, from 4,662 MT in 2018 (Jan-Jul) to 42,073 MT in 2019 (Jan-Jul), because an outbreak of African Swine Fever (ASF) resulting in a sharp reduction in pork meat supplies in China encouraged Chinese buyers to turn to Thai chicken meat. In the meantime, Thailand is currently eligible to export chicken meat to China. Less attractive prices for boneless leg meat in the Japanese market in early 2019 partly drove some Thai exporters to switch to the South Korean market. Exports to South Korea also increased sharply by 57 percent in 2018 (Jan-Jul), mostly in uncooked products, to 24,008 MT from 15,285 MT in the same period of 2018.

Based on trade data for the first 7 months, Post estimates that total chicken meat exports for 2019 will continue to grow by 14 percent to 950,000 MT, up from 834,849 MT in 2018. About 68 percent of total exports in 2019 are expected to consist of cooked chicken meat products.

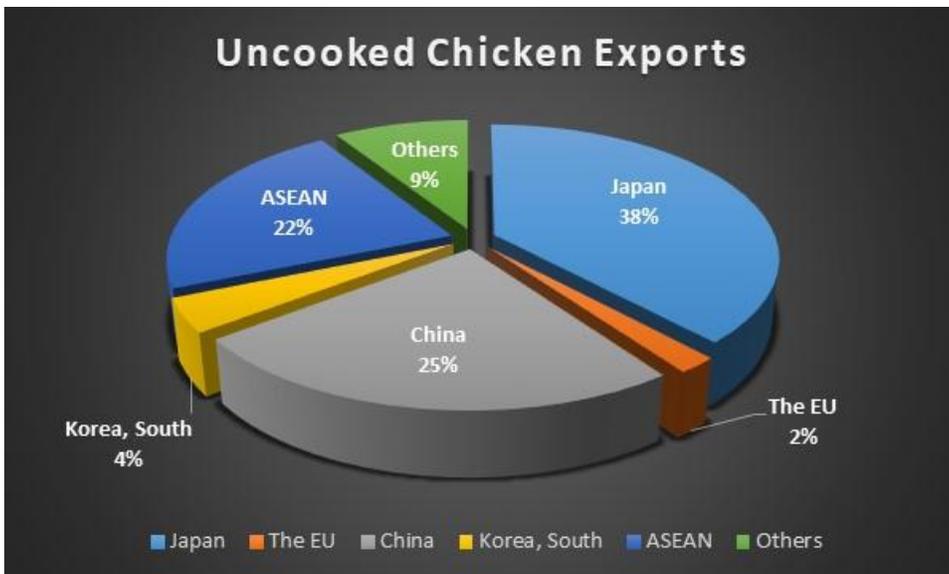
According to trade sources, the export outlook in the EU market is still vulnerable from the impact of BREXIT, scheduled to begin October 31, 2019, on the EU chicken meat quota for exporting countries, including Thailand.

Table 5: Thailand's Chicken Meat Exports, By Type of Product



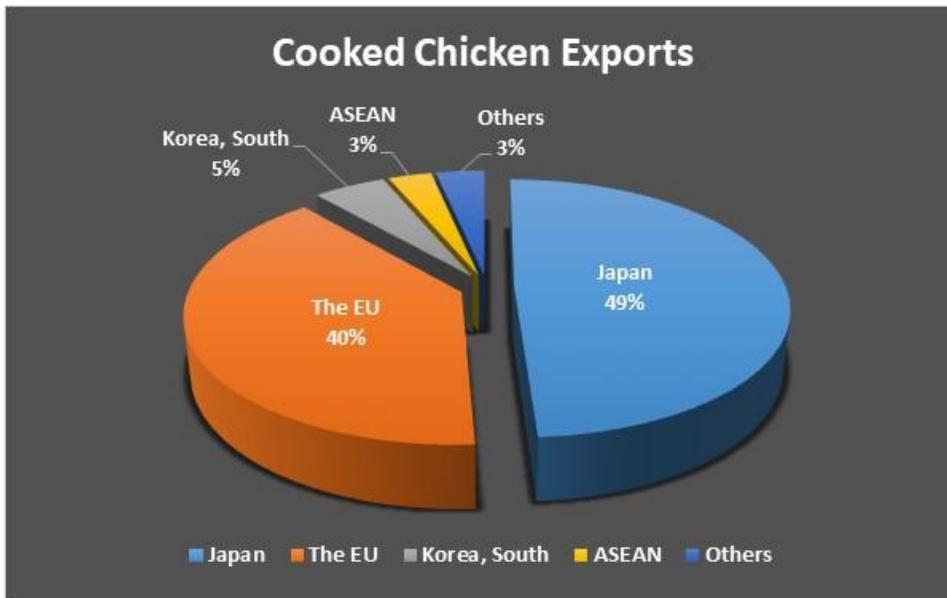
Source: Thai Department of Customs

Table 6: Buyers' Market Shares in Thai Uncooked Chicken Exports in 2019 (Jan-Jul)



Source: Thai Department of Customs

Table 7: Buyers' Market Shares in Thai Cooked Chicken Exports in 2019 (Jan-Jul)



Source: Thai Department of Customs

Export Prices and Products

Trade sources report that export prices for uncooked products in the Japanese market went down slightly due mainly to reduced demand in the Japanese chicken processing industry in early 2019. Prices for uncooked frozen boneless leg meat in the first 8 months of 2019 (Jan-Aug) averaged at U.S. \$2,800-2,900, as compared to \$2,900-3,000 in 2018. Prices for cooked boneless chicken leg parts shipped to the Japanese market remain strong at U.S. \$4,500-5,000/MT CIF.

Export prices for steamed dice-shaped skinless boneless breast, a major export item to the EU, were basically unchanged at U.S. \$3,500-4,000/MT in 2019 (Jan-Aug) as compared to the 2018 averages. On the other hand, export prices for uncooked boneless breast meat shipped to the EU dropped from U.S. \$3,100-3,400/MT to an average U.S. \$2,500-2,600/MT CIF in 2019 (Jan-Aug) due mainly to increased production in Eastern Member States of the EU, particularly Poland.

The bulk of cooked chicken products used for export consist of made-to-order products that are processed or prepared by heat (such as grilling, steaming, and boiling) and are usually puffed or seasoned (with salt, Japanese sauce, etc.).

The EU Quota Administration

There has been no change in the EU quota allocation system. Thailand is annually granted 92,610 MT of the EU's uncooked salted poultry meat quota and 5,100 MT for uncooked unsalted poultry meat. The in-quota tariff rate is 15.4 percent while the out-of-quota duty is €1,300/MT (U.S. \$1,546/MT). The EU quota for cooked chicken meat from Thailand (EU HS code 16023219) is 160,033 MT. In-quota imports from Thailand are subject to an 8 percent tariff. The out-of-quota duty for cooked chicken meat

is €1,024/MT (U.S. \$1,027/MT). Thailand has used its entire cooked chicken meat EU quota since 2008.

In addition, Thailand is granted the EU's import quota of 14,000 MT per annum for cooked chicken meat products containing 25-57 percent chicken meat and 2,100 MT per annum for cooked chicken meat products containing less than 25 percent chicken meat. The in-quota import tariff rate is 10.9 percent while the out-of-quota rate is €2,765/MT (U.S. \$3,196/MT).

Trade Development

Tyson Foods, Inc., a U.S.-based company, announced on June 3, 2019, the successful completion of the acquisition of the Thai and European businesses from BRF S.A. The purchase, worth U.S. \$340 million, includes four production facilities in Thailand, and one each in the Netherlands and the United Kingdom. These businesses build on the company's growth strategy to expand offerings of value-added protein in global markets. The vertically integrated poultry operations in Thailand include a feed mill, hatchery, breeder farms and contract growing operations supplying live birds for the four poultry processing facilities. These four plants produce a wide range of fresh and frozen, value-added raw and fully cooked poultry products including highly specialized cuts for retail and foodservice customers throughout Asia and other export markets, including Europe. The chicken processing capacity is about 90 million bird of broiler per annum. However, trade sources believe that this development should not affect existing Thai processors in both domestic and international markets.

Charoen Pokphand Food Public Company (CPF), the largest integrated corporation for poultry, livestock, and aquaculture in Thailand, established a partial ownership in the third largest poultry producer in Poland to enhance the company's chicken meat sales to the EU. In addition, CPF's export-oriented chicken meat processing plants in Vietnam, with an annual capacity of 52 million birds of broiler, is scheduled to operate in 2019.

Stocks

There are no official reports on stocks of chicken meat in Thailand.

Policy

Thailand is a highly protected market where the government selects what type of poultry meat is allowed for import. U.S. chicken meat products are practically banned through non-transparent import permit controls have prevented potential importers from being able to acquire import permits. Additionally, high import tariffs (30 percent for chilled or frozen uncooked meat and 40 percent for cooked chicken meat) and a discriminatory import permit fee on uncooked products (7 baht/kg or approx. U.S. \$210/MT) are employed to protect the domestic market from imports.

Thailand banned imports of U.S. turkey meat in December 2014 due to the finding of Highly Pathogenic Avian Influenza (HPAI) in Texas and California. Although USDA immediately worked with Thailand to resume the U.S. market access after the import ban was announced, Thailand has slowly responded to the U.S. request. Thailand sent its inspectors to conduct an audit of production system in the United

States in July 2019. It might take another 6-12 months to finalize Thailand's approval for export eligibility.

Marketing

Marketing opportunities for U.S. chicken meat exports to Thailand remain unchanged. Local Thai consumers, similar to other Asian countries, prefer dark chicken meat to white meat. Therefore, Thailand remains a potential market for U.S. chicken parts (especially leg-quarters), mechanically deboned meat (MDM), and value-added chicken meat. Potential buyers for chicken parts and MDM include food processors (sausage processors in the case of MDM) and supermarkets. Value-added chicken meat can also be introduced to modern retail markets and the food service industry.

End of Report.