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GAIN Report

Global Agricultural Information Network

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Price Insurance Starts to Replace Mortgage Scheme

Report Categories:

Grain and Feed

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Report Highlights:

TH9161 The government has implemented a new approach to agricultural support. A direct payment program based on price insurance is replacing indirect support for rice, corn and tapioca. Early indications are that farmers do not yet understand the program very well and lower-than-expected compensation could generate challenges for the new program.

Agricultural Support to Shift to Direct Payments

The Thai Government is in the midst of revising its approach to support for its agricultural sector which could have significant economic and political ramifications. The long-standing conventional mortgage scheme is being replaced with a price insurance system targeting farmers directly. Regarding the rice sector, which accounted for 90 percent of total government farm support program, the Thai Government worked through the rice milling industry to intervene directly in the marketplace by purchasing rice at prices well above world prices. In the process, the government accumulated and stored huge stocks and incurred large losses as they worked through Thai rice exporters to move the stocks into the world market. In addition to the budgetary burden estimated at over US\$3 billion in 2008, few of the benefits fell to the farmers. The current program suffered from “slippage,” made illicit cross-border trade very attractive, and invited public and behind-the-scenes political wrangling. Finally the immediate prospect of an open ASEAN rice market in 2010 prompted Thai policy makers to shift to the price insurance scheme.

The new price insurance scheme represents income support paid directly to farmers. Payments to farmers will be based on the difference between insured prices and benchmark prices. Before the program was implemented, farmers registered to participate in the program based on their historical production. In addition to the revenue earned on the sale of their crop to the market, farmers will receive a payment directly from the government based on their registration commitment. The program is being funded at a lower level than the mortgage scheme (estimated at US\$1 billion annually), but hopes to target farmers more directly.

The change in agricultural support represents a huge shift in the way government program resources will be spent. (There are significant political interests involved in the old system’s pattern of payments to millers and exporters). At the same time, the new direct-payment system is complex and difficult to communicate to farmers. The new program will be a challenge to administer in light of the huge number of Thai households (estimated at 3.7 million families) targeted to receive benefits. Meanwhile the timing of the program shift is in a critical stage as rice prices are drifting downwards just as Thailand’s main rice crop is coming onto the market. In the future, the government intends farmers to pay an insurance premium in order to be covered by the program.

Initial Program Parameters Established

The price insurance scheme is designed to provide a direct payment to eligible farmers based on the difference between insured prices and a benchmark price, regardless of the market prices farmers received when they sell their crop. The Government finalized the insured prices of paddy in its cabinet meeting of September 22, 2009. The insured prices are based on average production costs and a profit margin of 30-40 percent. The first benchmark prices were finalized on October 5, 2009 based on weighted average wholesale prices of rice in Bangkok equivalent to paddy with less than 15 percent moisture content.

The benchmark price will be set on the first and sixteenth days of each month. White rice farmers registered in the program seeking a direct payment during the period October 1-15, 2009 will receive 1,194 baht/ton of paddy (the difference between the insured price and the price benchmark). Total compensation for white rice paddy is limited to 25 tons per household or 29,850

baht. The program is designed to benefit all farmers, particularly small-scale farmers. Compensation will be transferred directly to farmers by the Bank for Agriculture and Agricultural Cooperative (BAAC). Farmers will manage the sale decision when to capitalize on the spread between the insured price and the benchmark price.

Table: Price Insurance Scheme for MY 2009/2010 rice crop

	Rice paddy				
	Fragrant rice (Hom Mali)	Provincial fragrant rice	Pathum fragrant rice	Glutinous rice	White rice
1. Eligible tonnage (ton/household) ^{a/}	14	16	25	16	25
2. Insured prices (Baht/ton) ^{a/}	15,300	14,300	10,000	9,500	10,000
3. Benchmark prices (Baht/ton) ^{b/}					
Oct. 1-15	14,986	13,899	9,896	7,523	8,806
Oct. 16-30	14,940	13,860	8,940	7,470	8,466
4. Compensation (1-2), (Baht/ton)					
Oct. 1-15	314	401	104	1,977	1,194
Oct. 16-30	360	440	1,060	2,030	1,534
5. Market prices (Baht/ton)					
Oct. 1-15	n.a.	n.a.	8,500	n.a.	8,600
Oct. 16-30	13,800	n.a.	8,550	n.a.	8,200

Note:

^{a/} Cabinet approval on Sep. 22, 2009

^{b/} The benchmark prices will be published twice a month on the 1st and 16th, based on average historical wholesale prices of the last 15 days in Bangkok. These prices are set by the Subcommittee on Benchmark Price Determination, chaired by the Permanent Secretary of Ministry of Commerce.

Table: Price Insurance for MY2009/2010 Corn and Tapioca Crops

	Corn	Tapioca
1. Eligible tonnage (ton/household) ^{a/}	15	12
2. Insured prices (Baht/kg.) ^{a/}	7.1	1.7
3. Benchmark prices (Baht/kg.) ^{b/}		
Oct. 1-15	5.55	1.4
Oct. 16-30	5.58	1.45
4. Compensation (1-2), (Baht/kg.)		
Oct. 1-15	1.55	0.3
Oct. 16-30	1.52	0.25

Note:

^{a/} Cabinet approval on Sep. 22, 2009

^{b/} The benchmark prices will be published twice a month on the 1st and 16th, based on average historical wholesale prices of the last 15 days in Bangkok. These prices are set by the Subcommittee on Benchmark Price Determination.

Big Change with Big Challenges

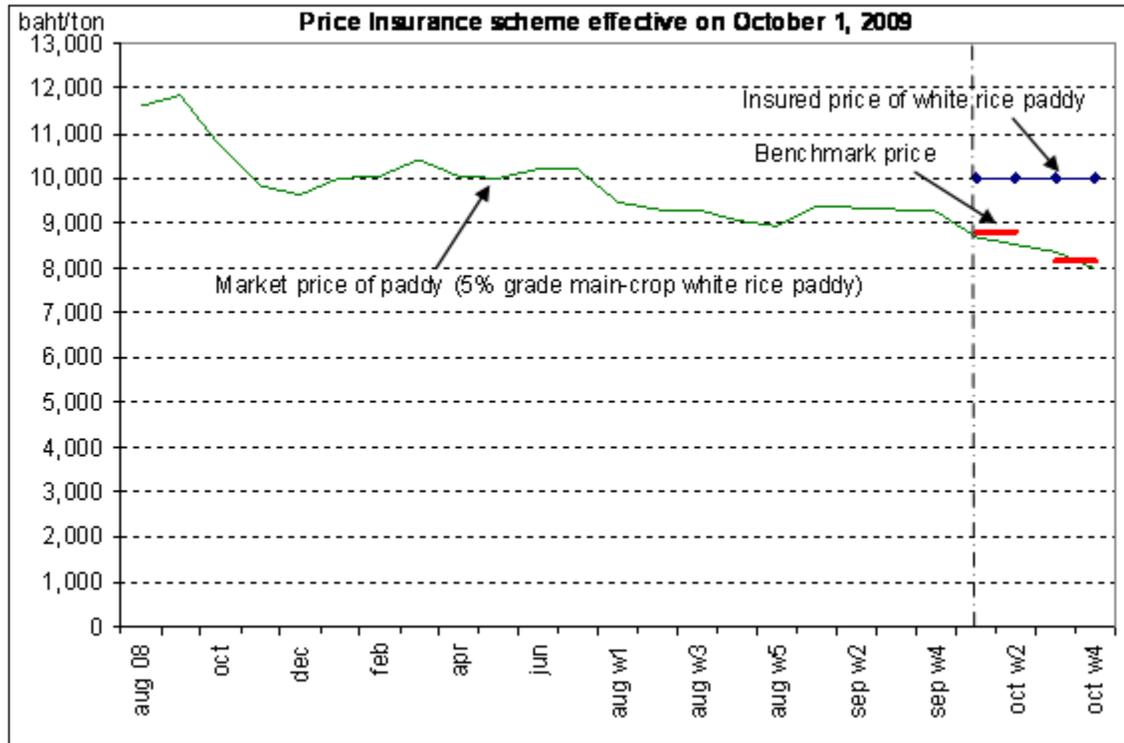
Presently, implementation of the new rice insurance program is being challenged by the traditional beneficiaries of the mortgage scheme, particularly the rice milling interests.

The Thailand Development and Research Institute (TDRI) estimated that under the rice mortgage scheme, farmers derived 40 percent of the total program benefits. The program benefited government agencies (14%), millers (14%), exporters (24%), and warehouse owners (4%). The shift from mortgage scheme to price insurance brings with it a sharp reduction in the total level of planned government budget support.

White rice farmers that registered for compensation for October will likely receive less income than the insurance price if they sell paddy during the current period since the market price is lower than the benchmark price. In general, most white rice farmers, particularly in the north and central plain, immediately sell paddy into the market right after the harvest due to limited storage and drying facilities.

Currently increasing supplies of new crop harvest are pressuring farm-gate prices. The Government was forced by the traditional beneficiaries of the mortgage scheme to stabilize market prices, resulting in Cabinet approved measures on October 20, 2009. These include direct purchases of 2.0 million tons of paddy from farmers at benchmark prices, financial assistance to millers, domestic and international market promotion, on-farm mortgage of 1.5 million tons of paddy, and outreach to farmers for effective communication of the new price insurance program. Even if temporary, the return of government intervention and mortgage scheme under these measures will be an obstacle to

implement the new program successfully.



End of report.