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POLICY

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Sugar Semi-annual

Report Categories:

Sugar

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Report Highlights:

TH0140 MY2010/11 sugar production is revised down to 6.87 million tons from 7.2 million tons, and down slightly 0.8 percent from the previous year of 6.93 tons in anticipation of a reduction in sugarcane production due to unfavorable weather conditions. MY 2010/11 sugar exports have been revised down to 4.7 million tons, down 20.3 percent from MY 2009/11 of 5.9 tons in anticipation of tight exportable supplies and a recovery in production in major producing countries. For the first time in seven years, the government allowed an increase in sugar production capacity from 0.9 million tons of sugarcane/day to 1.1 million tons of sugarcane/day and the addition of new sugar mills, from 47 mills to 53. This implies that the total increase in capacity would be 22.6 percent from existing capacity.

Executive Summary:

MY2010/11 sugar production is revised down to 6.87 million tons, and down slightly 0.8 percent from the previous year of 6.93 million tons in anticipation of a reduction in sugarcane production due to unfavorable weather conditions. As a result, the harvest will be delayed by a month and commence in December. Sugarcane will be continued to be used primarily for sugar production. Only 0.5 percent of sugarcane production is used for ethanol production. However, domestic market prices of sugar will likely ease as global sugarcane production normalizes.

MY2009/10 sugar exports have been revised up to 5.9 million tons, up 11.4 percent from the previous year due to attractive export prices driven by tight sugar supplies of major producing countries, particularly India. Meanwhile, MY 2010/11 sugar exports have been revised down to 4.7 million tons, down 20.3 percent from the previous year in anticipation of tight exportable supplies and a recovering global sugarcane production.

MY2009/10 sugar stocks have revised down due to a significant increase in sugar exports. In addition, MY 2010/11 sugar stocks will likely continue to decline in anticipation of a reduction in sugarcane production and record sugar exports in 2009/2010.

MY 2009/10 average market prices of sugar cane will likely be 10 percent higher than support prices. Meanwhile, MY2010/11 sugarcane support prices are expected to be lower than the previous year as global sugar prices will likely ease as global sugarcane production recovers. On May 11, 2010 the Thai government approved an increase in sugar production capacity from 0.9 million tons of sugarcane/day to 1.1 million tons of sugarcane/day, a 22.6 percent increase, and the addition of new sugar mills from 47 mills to 53 mills. This is the first time since 2003 that the government has allowed an increase in capacity and plants. In addition, on September 7, the government approved a 3-year soft loan of 3,000 million baht (\$100 million) to improve harvest efficiency through the purchasing of cane harvesters.

Production:

MY2010/11 sugar production is revised down to 6.87 million tons, and down slightly 0.8 percent from the previous year of 6.93 tons in anticipation of a reduction in sugarcane production due to unfavorable weather conditions. Despite an acreage expansion of sugarcane crop by 3-4 percent, production is expected to decline to 68.3 million tons, down 0.6 percent from the previous year, and far below the previous forecast of 71.0 million tons, due to insufficient rain during the crop's growing stage. The average yield will decline 3.8 percent from the previous year's level to 62.7 tons/ha. In addition, the sugar content is expected to be as low as in the previous year's level at 101 kg/ton of cane due to unfavorable weather conditions –rain delays at the beginning of the cultivation period followed by excessive rains before the harvest period. As a result, harvest will be delayed by a month and commence in December. Meanwhile, molasses production, a sugar by-product, is expected to decline to

2.9 million tons, down 1.8 percent from the previous year. Molasses prices will likely remain under upward pressure in anticipation of a continued increase in molasses-based ethanol production following tight tapioca supplies. Current molasses prices are 5,000 baht/ton (\$170/MT), as compared to an average of 4,500 baht/ton (\$130/MT) in the previous year.

Consumption:

MY2010/11 sugarcane will be primarily used for sugar production, although gasohol consumption has increased in Thailand. It only uses 0.5 percent of the sugarcane production as molasses and tapioca make up the bulk of the ethanol production (see TH0098, "[Biofuels Annual 2010, July 7, 2010](#)"). Increase of sugarcane use for gasohol production will remain low as sugar prices remain more attractive than ethanol prices. There currently is one sugarcane-based ethanol plant operating at 30-40 percent capacity or 60,000 – 80,000 liters/day using approximately 0.2 – 0.3 million tons of sugarcane/year cultivated from contract farming of 27,000 rai (4,320 hectares).

Trade:

MY2009/10 sugar exports have been revised up to 5.9 million tons, up 11.4 percent from the previous year due to attractive export prices driven by tight sugar supplies of major producing countries, particularly India. In January – June 2010, Thailand's sugar exports increased by 34.8 percent to 3.5 million tons (raw value) of which 1.4 million tons were raw sugar, up 21.0 percent, and the balance were white and refined sugar which also increased significantly by 45.0 percent. Exports of refined sugar to India continued to increase significantly to 341,815 tons (raw value) as of January – June 2010, as compared to total sugar exports of 327,560 tons to India in January – December 2009. Thailand also fulfilled the FY2010 U.S. tariff quota of 14,743 tons (raw value) and 8,520 ton (raw value) out of 9,282 tons (raw value) of the FY2010 additional allocation; it fell slightly short of fulfilling the additional allocation due to snags in logistics.

MY 2010/11 sugar exports have been revised down to 4.7 million tons, down 20.3 percent from the previous year in anticipation of tight exportable supplies and recovering production in major producing countries, such as India and Brazil. As a result, India is unlikely to import refined sugar from Thailand due to its sufficient domestic supplies from sugarcane production.

Despite a second consecutive year of a reduction in sugar production, sugar imports will remain marginal in MY2010/11 due to a high import tariff. The government's import policy adheres to its WTO commitments of a 65 percent tariff rate under a quota of 13,760 tons. Meanwhile, the out-of-quota tariff is 94 percent.

Stocks:

MY2009/10 sugar stocks have been revised down to 1.5 million tons, down 42 percent from the

previous year, due to a significant increase in sugar exports. In addition, MY 2010/11 sugar stocks will likely continue to decline in anticipation of a reduction in sugarcane production and record exports in 2009/2010. Meanwhile domestic consumption will continue to increase driven by economic recovery.

Policy:

MY 2009/10 average market prices of sugar cane will likely be 10 - 20 percent higher than support prices which were set at 965 baht/ton (\$32.2/MT) due to record global sugar prices driven by the India's sugar production shortfall. MY2010/11 sugar support prices are expected to be lower than the previous year as global sugar prices will likely ease in anticipation of production recoveries in major producing countries. Meanwhile, domestic sugar prices will likely remain unchanged due to government price controls from levels set on May 1, 2008 as concerns over inflation linger as the economic recovers.

On May 11, 2010 the Thai government approved an increase in sugar production capacity from 0.9 million tons of sugarcane/day to 1.1 million tons of sugarcane/day, a 22.6 percent increase, and new sugar facilities from 47 mills to 53 mills. This is the first time since 2003 that the government has allowed an increase in capacity and plants. This plant expansion should take 3-5 year for completion, resulting in an increase in sugarcane demand of approximately 0.2 million tons/day. The increase in sugarcane demand will likely be fulfilled by an acreage expansion of 20 - 30 percent at the expense of corn and tapioca, and an average yield improvement by 1 - 2 percent/year base on mills running at 60-70 percent capacity, which has been the norm in the past, however this remains to be seen as land is scarce the willingness to convert might not be there. In addition, on September 7, the government approved a 3-year soft loan of 3,000 million baht (\$100 million) with an interest rate of 4.7 percent/year (Minimum Retail Rate minus two percentage points: MRR-2) for cane growers to buy harvesters to improve their harvest efficiency.

The government controlled sugar prices are currently set at 19 baht/kg (\$26 cent/lb) for white sugar, and 20 baht/kg (\$27 cent/lb) for refined sugar, ex-factory wholesale (excluding 7 percent Value Added Tax). The retail prices (include Value Added Tax) are set at 21.85 baht/kg (\$33.0 cent/lb) for white sugar, and 22.85 baht/kg (\$34.5 cent/lb) for refined sugar. However, market prices are 10-30 percent higher than control prices due to record international sugar prices driven by lower-than-expected global sugarcane production. Sugar export prices remain attractive at more than \$600/MT (\$27.2 cent/lb) for delivery in March 2011, as compared to average prices of \$530/MT in the first half of 2010. Due to this disconnect in prices, concerns over domestic shortages surfaced as exports increased at a frantic pace, forcing the government to buy back 74,300 tons of sugar (5,290 tons of white sugar and 69,060 tons of refined sugar), that had been contracted for export by sugar mills, at \$705-720/MT to assuage such concerns.

Production, Supply and Demand Data Statistics :

Table 1: Thailand's Sugarcane Production

Sugar Cane for Centrifugal Thailand	2008/2009			2009/2010			2010/2011		
	Market Year Begin: Dec 2008			Market Year Begin: Dec 2009			Market Year Begin: Dec 2010		
	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post
Area Planted	1,025	1,025	1,025	1,050	1,050	1,055	1,080	1,080	1,090
Area Harvested	1,000	1,000	1,000	1,030	1,030	1,035	1,060	1,060	1,070
Production	66,50 0	66,50 0	66,59 0	69,00 0	69,00 0	68,70 0	71,00 0	71,00 0	68,30 0
Total Supply	66,50 0	66,50 0	66,59 0	69,00 0	69,00 0	68,70 0	71,00 0	71,00 0	68,30 0
Utilization for Sugar	66,43 0	66,43 0	66,43 0	68,92 0	68,92 0	68,50 0	70,92 0	70,92 0	68,00 0
Utilization for Alcohol	70	70	160	80	80	200	80	80	300
Total Utilization	66,50 0	66,50 0	66,59 0	69,00 0	69,00 0	68,70 0	71,00 0	71,00 0	68,30 0

Table 2: Thailand's Sugar Production, Supply and Demand

Sugar, Centrifugal Thailand	2008/2009			2009/2010			2010/2011		
	Market Year Begin: Dec 2008			Market Year Begin: Dec 2009			Market Year Begin: Dec 2010		
	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post
Beginning Stocks	2,651	2,651	2,651	2,556	2,556	2,556	2,396	2,396	1,486
Beet Sugar Production	0	0	0	0	0	0	0	0	0
Cane Sugar Production	7,200	7,200	7,200	6,940	6,940	6,930	7,150	7,150	6,870
Total Sugar Production	7,200	7,200	7,200	6,940	6,940	6,930	7,150	7,150	6,870
Raw Imports	0	0	0	0	0	0	0	0	0
Refined Imp.(Raw Val)	0	0	0	0	0	0	0	0	0
Total Imports	0	0	0	0	0	0	0	0	0
Total Supply	9,851	9,851	9,851	9,496	9,496	9,486	9,546	9,546	8,356
Raw Exports	2,279	2,279	2,279	2,300	2,300	2,700	2,400	2,400	2,200
Refined Exp.(Raw Val)	3,016	3,016	3,016	2,700	2,700	3,200	2,800	2,800	2,500
Total Exports	5,295	5,295	5,295	5,000	5,000	5,900	5,200	5,200	4,700
Human Dom. Consumption	2,000	2,000	2,000	2,100	2,100	2,100	2,200	2,200	2,200
Other Disappearance	0	0	0	0	0	0	0	0	0
Total Use	2,000	2,000	2,000	2,100	2,100	2,100	2,200	2,200	2,200
Ending Stocks	2,556	2,556	2,556	2,396	2,396	1,486	2,146	2,146	1,456
Total Distribution	9,851	9,851	9,851	9,496	9,496	9,486	9,546	9,546	8,356