

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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USDA STAFF AND NOT NECESSARILY STATEMENTS OF OFFICIAL U.S. GOVERNMENT
POLICY

Voluntary Public

Date: 5/1/2013

GAIN Report Number: TH3030

Thailand

Post: Bangkok

U.S. Export Challenges Generated by Thailand's FTAs

Report Categories:

Country/Regional FTA's

Country/Regional FTA's

Competitor

Market Development Reports

Fresh Fruit

Tree Nuts

Trade Policy Incident Report

Trade Policy Monitoring

Approved By:

Rey Santella, Agricultural Attaché

Prepared By:

Sakchai Preechajarn, Agricultural Specialist

Report Highlights:

TH3030. This report examines the impact free trade agreements have had on the competitiveness of U.S. exports to Thailand.

Executive Summary

As the world's economies become more intertwined and countries seek ways to facilitate trade, many governments have turned to free trade agreements (FTA) to help accomplish their goals and Thailand is no exception. In the past decade Thailand has entered into a number of free trade agreements and this report examines the impact Thailand's FTAs with Australia, New Zealand, and ASEAN member countries have had on U.S. agricultural exports.

The analysis in this report is limited to a number of agricultural products to provide a general picture of how U.S. exports have fared since the signing of the various Thai FTAs. In addition, to simplify the analysis, the report examines the impact these FTAs have had on three agricultural categories of exports, bulk, intermediate, and consumer-oriented goods.

Competitiveness of U.S. Agricultural Exports to Thailand

Thailand is the 17th largest export market for U.S. agricultural products, including seafood and forestry products, while it ranks as the 6th largest supplier of agricultural imports to the United States. Between 2005 and 2011, Thailand's global agricultural imports rose 13.4 percent annually. China, in particular, has seen its share of the Thai agricultural import market rise to 8.3 percent in 2011 from 5.6 percent in 2005. New Zealand's market share also increased slightly to 3.5 percent from 3.3 percent during this same period. Australia's market share, however, surprisingly fell to 6.5 percent in 2011 from 8 percent in 2005, despite having a FTA with Thailand. During this same period, U.S. market share of Thailand's agricultural imports dropped slightly to 14 percent from 14.5 percent.

Despite losing market share, the value of U.S. agricultural exports to Thailand actually fared relatively better than expected. Table 1 shows Thailand's imports of U.S. agricultural, fishery and forestry products actually doubled to \$1.86 billion in 2011 from \$911 million in 2005, averaging an annual growth of 12.7 percent. Imports of U.S. bulk commodities rose by 10.4 percent annually while intermediate agricultural products increased by 8.9 percent and consumer oriented agricultural products by 14.1 percent. The imports of U.S. fishery and seafood products also rose by 37.9 percent annually from 2005-2011 while forest products (excluding pulp and paper) dropped by 1.5 percent per year.

Table 1: Thailand's Imports of Agricultural, Fishery and Forest Products by Origin and Annual Growth

from 2005-2011

Product Category/Product	Total Imports from All Origins		The United States		China		Australia		New Zealand	
	Import Value in 2011 (USD 1,000)	% Annual Growth	Import Value in 2011 (USD 1,000)	% Annual Growth	Import Value in 2011 (USD 1,000)	% Annual Growth	Import Value in 2011 (USD 1,000)	% Annual Growth	Import Value in 2011 (USD)	% Annual Growth
AG, FISH, FORESTRY TOTAL	13,332,133	13.4	1,863,770	12.7	1,258,338	23.8	939,076	11.1	465,352	15.2
AGRICULTURAL PRODUCTS TOTAL	9,840,564	15.5	1,558,927	10.9	912,439	23.4	920,177	11.2	414,126	15.5
1. Bulk Commodity Total	3,146,035	13.9	874,912	10.4	39,521	12.5	485,739	13.9	968	8.6
2. Intermediate Ag Products Total	3,414,138	15.5	303,800	8.9	188,466	24.7	191,340	5.9	15,616	1.5
3. Consumer Oriented Ag Products Total	3,280,391	17.0	380,215	14.1	684,452	24.0	243,098	11.4	397,542	16.4
FOREST PRODUCTS, excl. PULP/PAPER TOTAL	804,445	1.5	30,579	-1.5	143,916	20.7	7,926	0.3	36,827	21.7
FISH & SEAFOOD PRODUCTS TOTAL	2,687,125	11.6	274,262	37.9	201,983	28.6	10,973	8.6	14,399	1.8

Source: Thai Customs Department

Free Trade Agreement Impact on U.S. Bulk Commodities

The Thai FTAs appear to have minimal impact on U.S. bulk exports to Thailand. Bulk commodities such as cotton, soybeans, and wheat are currently the largest U.S. agricultural exports to Thailand. Table 2 shows the various tariff rates that are levied on bulk commodity exports to Thailand and it reveals that duties between the United States and Thai FTA signatory countries for cotton, soybeans, and wheat are minimal and do not appear to have adversely affected the export of U.S. bulk commodities to Thailand. Despite the various Thai FTAs, Table 3 illustrates that the U.S. remains competitive in Thailand's bulk commodity import market. The reasons for these variations can be attributed to factors (i.e., exchange rates, weather conditions in other countries that grow competing crops, etc.) other than the preferential tariff rates granted to Thai FTA signatory countries.

For example, the rise in U.S. market share for Thai cotton imports is due to an increase in U.S. cotton supplies and the lower value of the U.S. dollar. On the other hand, U.S. market share of the Thai soybean market dropped from 29.2 percent in 2005 to an annual average of 20.2 percent from 2005-2011 due to less expensive imports from Brazil and Argentina. Higher protein requirements sought by Thai importers also played a factor in the loss of U.S. market share. The U.S. market share of the Thai wheat import market fell to 44.9 percent from 48.7 percent due to increased competition from wheat suppliers like Canada, Russia, and India. Australia, a major U.S. competitor for wheat, also lost market share even though it receives preferential FTA tariff rates. Adverse weather conditions, particularly drought, reduced Australia's wheat exports to Thailand.

Table 2: Thailand's Tariff Schedule on Selected Items of Bulk Commodities

	Applied MFN Tariff Rates		Applied Tariff Rates under FTAs with Thailand					
	The United States		China 1/		Australia 2/		New Zealand 3/	
	2005	2011	2005	2011	2005	2011	2005	2011
<i>Bulk Commodity</i>								
- Cotton	0%	0%	0%	0%	0%	0%	0%	0%
- Soybeans	0% TRQ	0% TRQ	0% TRQ	0% TRQ	0% TRQ	0% TRQ	0% TRQ	0% TRQ
- Wheat	0.10 baht/kg	0%	0%	0%	0%	0%	0%	0%
Note:								
1/	Tariff rates for products under HS chapter 07-08 was eliminated in October 2003 and those for products under HS chapter 01-06 was eliminated in January 2006.							
	Tariff rates for products besides chapter 01-08 began to reduce in January 2007 and nearly all of them were eliminated in January 2010.							
2/	Tariff rates commenced to reduce or were eliminated in January 2005							
3/	Tariff rates commenced to reduce or were eliminated in July 2005							

Table 3: U.S. Market Share of Thailand's Agricultural Bulk Commodity Imports Compared to Other Countries

Product Category/Product	Imports from All Origins In 2011 (USD 1,000)	The United States		China		Australia		New Zealand	
		Mkt. Share In 2005	Avg. Mkt. Share 2006-2011	Mkt. Share In 2005	Avg. Mkt. Share 2006-2011	Mkt. Share In 2005	Avg. Mkt. Share 2006-2011	Mkt. Share In 2005	Avg. Mkt. Share 2006-2011
<i>Bulk Commodity Total</i>	3,146,035	33.7	28.4	1.4	1.4	15.5	12.4	0.0	0.1
- Cotton	1,123,922	35.1	37.1	0.7	0.6	16.4	18.7	0.0	0.0
- Soybeans	1,128,205	29.2	20.2	0.0	0.0	0.0	0.0	0.0	0.0
- Wheat	505,764	48.7	44.9	0.0	0.2	49.3	32.2	0.0	0.0

Thai FTA Impact on U.S. Intermediate Agricultural Exports

The impact of the Thai FTAs on intermediate U.S. agricultural exports is mixed. Table 4 includes the preferential tariff rates granted to Thai FTA signatory countries for products categorized as intermediate agricultural goods. The data shows tariff rates for Thai FTA countries gradually declined to zero between 2005 and 2011. Meanwhile tariffs on U.S. intermediate agricultural exports to Thailand varied from 0-40 percent.

Sugar/sweetener/beverage products appear to be the most affected by the Thai FTAs. The 20 to 40 percent duty on U.S. sweetener/beverage products (see Table 4) resulted in a loss of market share to 9.3 percent in 2011 from 21.6 percent in 2005 (Table 5). China was the major benefactor of the lower tariff rates as its market share for sweetener/beverage products in Thailand rose significantly to 40 percent in 2011 from 13 percent in 2005.

Table 5 also shows variations in U.S. market shares for other intermediate products. For example, U.S. market share for hides and skins and soybean meal also declined while those for other feed ingredients/complete feed, live animals, and vegetable oils slightly rose. These market share variations,

however, should not be directly attributed to the Thai FTAs for two reasons: 1) Thailand's tariffs on intermediate agricultural goods from the United States and its competitors are relatively low at zero to 8 percent; and 2) soybean meal and vegetable oil imports are strongly controlled by restrictive tariff-rate-quotas.

Table 4: Thailand's Tariff Schedule on Selected Items of Intermediate Agricultural Products

	Applies MFN Tariff Rates		Applied Tariff Rates under FTAs with Thailand					
	The United States		China 1/		Australia 2/		New Zealand 3/	
	2005	2011	2005	2011	2005	2011	2005	2011
<i>Intermediate Ag Products</i>								
- Feed & Fodders, excl. Pet Food	1-9%	1-9%	1-9%	0%	1-6%	0%	0-6%	0%
- Hides and Skins	0-5%	0-5%	0-5%	0%	0%	0%	0%	0%
- Soybean Meal	2% TRQ	2% TRQ	2% TRQ	0%	0% TRQ	0% TRQ	0% TRQ	0% TRQ
- Live Animals	0-5%	0-5%	0-5%	0%	0-6%	0%	0-24%	0%
- Sugar/Sweetener/Beverage Bases	20-40%	20-40%	20-40%	0%	0-30%	0%	0-30%	0%
- Vegetable Oils, excl. Soybean Oil	27% or 0.75-3.0 baht/liter	27% or 0.75-3.0 baht/liter	27%	0%	0-2.4%	0%	0-2.4%	0%
- Animal Fats	10-30%	10-30%	10-30%	0%	0-2.4%	0%	0-2.4%	0%
- Planting Seeds	1-30%	1-30%	1-30%	0%	0-2.4%	0%	0-2.4%	0%

Table 5: U.S. Market Share of Thailand's Intermediate Agricultural Imports Compared to Other Countries

Product Category/Product	Total Imports from All Origins in 2011 (USD 1,000)	The United States		China		Australia		New Zealand	
		Mkt. Share in 2005	Avg. Mkt. Share 2006-2011	Mkt. Share in 2005	Avg. Mkt. Share 2006-2011	Mkt. Share in 2005	Avg. Mkt. Share 2006-2011	Mkt. Share in 2005	Avg. Mkt. Share 2006-2011
<i>Intermediate Ag Products Total</i>	3,414,138	12.7	10.9	3.5	5.3	9.5	6.5	1.0	0.6
- Feed & Fodders, excl. Pet Food	339,151	46.6	48.8	4.1	9.2	1.3	0.8	0.0	0.1
- Hides and Skins	208,305	33.9	30.5	0.2	0.1	26.9	21.8	2.2	1.7
- Soybean Meal	1,097,206	3.0	1.8	0.0	0.2	0.0	0.0	0.0	0.0
- Live Animals	44,917	18.8	41.7	0.3	0.2	1.6	7.3	0.0	0.5
- Sugar/Sweetener/Beverage Bases	75,242	21.6	9.3	12.6	40.4	4.2	2.2	4.4	0.6
- Vegetable Oils, excl. Soybean Oil	399,969	2.5	4.1	3.1	2.8	0.5	0.9	0.0	0.1
- Animal Fats	7,782	3.1	2.4	0.0	0.0	2.0	3.2	13.5	12.9
- Planting Seeds	23,891	8.7	6.1	3.2	6.7	5.1	3.0	9.4	9.8

Competitiveness of U.S. Agricultural Consumer-Oriented Products

As a whole, consumer-oriented U.S. agricultural exports have been the most impacted by the Thai FTAs. Data in Table 7 shows average tariffs levied on U.S. consumer-oriented exports are 30 to 40 percent higher than those imposed on Thai FTA signatory partners. The Thai FTAs, particularly with China, have decreased the competitiveness of many U.S. consumer-oriented agricultural exports. For example, U.S. market share for Thailand's fresh fruit imports dropped from 18.1 percent in 2005 to an average of 12.3 percent between 2006 and 2011. U.S. processed fruit and vegetable exports also saw a decrease in market share from 23.1 percent in 2005 to 16.7 percent during the same period. The U.S. share of snack food products also fell to 4.7 percent from 5.7 percent. Meanwhile, the market shares for similar Chinese products increased to 64.4 for fresh fruits and 49.8 percent for processed fruit and vegetables.

Despite the significant tariff differences imposed on consumer-oriented products, some American consumer-oriented agricultural exports remained competitive. For example, U.S. juice, wine and beer, and breakfast cereal exports to Thailand have grown primarily because of consumer loyalty and better product quality. U.S. tree nuts (i.e., almonds and pistachios), for example, are viewed favorably by Thai consumers and mainly used as ingredients for producing snack food/bakery products, which require high-quality food ingredients.

In addition, U.S. dairy products have remained competitive despite the challenging market. According to industry sources, the reason for the growth in U.S. dairy exports to Thailand is because countries like New Zealand and Australia have moved away from producing cheese and skimmed milk powder products for the Thai market and have shifted their focus on producing whole milk powder products for the China and Middle East markets. This shift has increased the market opportunities for U.S. skimmed milk powder, whey powder, and cheese exports in Southeast Asian markets including Thailand.

Table 6: Thailand's Tariff Schedule on Selected Items of Consumer Oriented Agricultural Products

	Applied MFN Tariff Rates		Applied Tariff Rates under FTAs with Thailand					
	The United States		China 1/		Australia 2/		New Zealand 3/	
	2005	2011	2005	2011	2005	2011	2005	2011
<i>3. Consumer Oriented Ag Products</i>								
- Dairy Products, excl. Cheese	5-30%	5-30%	5-30%	0%	0-15%	0-9%	0-24%	0-18%
- Cheese	30%	30%	30%	0%	20-30%	0-18%	20-30%	8-18%
- Fresh Fruits	30-40%, except apples 10%	30-40%, except apples 10%	30-40%	0%	0-30%	0-12%	0-33.5%	0%
- Processed Fruit & Vegetables	30-40%	30-40%	30-40%	0%	0-30%	0-12%	0-33.5%	0%
- Tree Nuts	10-40%	10-40%	10-40%	0%	0-6%	0%	0-6%	0%
- Snack Foods, excl. Nuts	10-30%	10-30%	10-30%	0%	0-24%	0%	0-24%	0%
- Pet Foods (Dog and Cat Food)	9%	9%	9%	9%	6%	0%	6%	0%
- Fruit & Vegetable Juices	10-30%	10-30%	10-30%	0-30%	24%	0%	24%	0%
- Wine & Beer	54%	54%	54%	0%	30-40%	0-16%	30-40%	0-16%
- Breakfast Cereals/Pancake Mix	20-30%	20-30%	20-30%	0%	0-24%	0%	0-24%	0%
- Fresh Vegetables	40%	40%	40%	0%	0-30%	0%	0-30%	0%
- Eggs & Products	5-27%	5-27%	5-27%	0%	0-24%	0%	0-24%	0-5%
- Poultry Meat	30-40%	30-40%	30-40%	0%	24%	0%	18-30%	0%
- Red Meats, Fresh/Chilled/Frozen	30-50%	30-50%	30-50%	0%	30-40%	18-24%	0-40%	0-24%
- Red Meats, Prepared/Preserved	30-50%	30-50%	30-50%	0%	30-40%	18-24%	24-40%	0-24%

Table 7: U.S. Market Share of Thailand's Consumer Oriented Agricultural Product Imports Compared to Other Countries

Product Category/Product	Imports from All Origins In 2011 (USD)	The United States		China		Australia		New Zealand	
		Mkt. Share In 2005	Avg. Mkt. Share 2006-2011	Mkt. Share In 2005	Avg. Mkt. Share 2006-2011	Mkt. Share In 2005	Avg. Mkt. Share 2006-2011	Mkt. Share In 2005	Avg. Mkt. Share 2006-2011
		<i>Consumer Oriented Ag Products Total</i>	3,280,391	13.5	13.1	14.8	19.4	10.0	8.4
- Dairy Products, excl. Cheese	614,366	7.9	11.2	0.5	1.0	21.6	14.8	30.1	42.9
- Cheese	42,423	2.2	3.2	0.0	0.0	31.4	33.8	34.3	28.3
- Fresh Fruits	363,191	18.1	12.3	61.6	64.4	5.6	5.7	1.8	5.6
- Processed Fruit & Vegetables	325,842	23.1	16.7	42.2	49.8	1.9	0.7	2.7	1.8
- Tree Nuts, excl. coconut	24,854	50.9	55.8	28.8	24.8	3.2	13.4	0.0	0.1
- Snack Foods, excl. Nuts	230,034	5.7	4.7	3.4	8.2	4.7	2.5	0.6	0.6
- Pet Foods (Dog and Cat Food)	31,946	32.3	32.4	13.6	7.9	50.7	39.3	0.0	0.0
- Fruit & Vegetable Juices	63,561	20.9	25.6	12.7	11.4	3.2	2.8	0.2	0.2
- Wine & Beer	54,410	3.3	3.5	0.3	10.6	18.6	21.3	0.7	0.9
- Breakfast Cereals/Pancake Mix	33,630	3.5	4.1	49.6	48.8	1.6	2.3	0.0	0.0
- Fresh Vegetables	144,557	0.2	2.2	67.3	69.6	5.0	2.7	0.0	0.5
- Eggs & Products	13,646	3.0	9.7	1.7	3.0	0.0	1.1	0.0	0.0
- Poultry Meat	3,369	31.1	36.7	0.0	1.2	0.6	3.7	0.0	0.0
- Red Meats, Fresh/Chilled/Frozen	81,939	0.4	2.3	1.0	1.0	52.2	50.0	18.5	19.2
- Red Meats, Prepared/Preserved	13,752	5.6	10.7	2.6	4.7	0.9	3.4	0.9	1.0
- Others	1,238,871	16.8	16.9	5.4	6.5	3.7	5.6	9.6	5.9

Factors Influencing U.S. Competitiveness

Overall, U.S. agricultural exporters remain competitive in the Thai market due to several reasons. These include the depreciation of the U.S. dollar, increased disposable income of the Thai consumer, growing tourism industry, increased number of expats living in Thailand, high quality of U.S. products, etc.

The U.S. currency depreciation appears to be the most influential factor that has helped U.S. agricultural exports remain competitive in Thailand. Table 8 shows the significant reduction in the value of the U.S. Dollar compared to the Thai Baht (down 16.22 percent), Chinese Yuan, (down 3.3 percent) and Australian Dollar (5.68 percent) during the 2005-2011 period.

Table 8: Average Exchange Rates of USD, CNY, AUD, and NZD Against Thai Baht (Unit: Baht)

Currency	2005	2006	2007	2008	2009	2010	2011	% Annual Growth	Average 2006-2011	% Δ 2006-2011/2005
US Dollar (USD)	40.2202	37.8820	34.5182	33.3133	34.2858	31.6898	30.4917	-4.51	33.6968	-16.22
Chinese Renminbi (CNY)	4.9010	4.7485	4.5395	4.8000	5.0241	4.6772	4.7270	-0.60	4.7527	-3.03
Australian Dollar (AUD)	30.6350	28.5263	28.9150	28.3102	27.0551	29.1025	31.4632	0.45	28.8954	-5.68
New Zealand Dollar (NZD)	28.2929	24.6065	25.3838	23.7048	21.6845	22.8335	24.1230	-2.62	23.7227	-16.15

Conclusion

The free trade agreements Thailand has entered into over the past decade have changed the dynamics for U.S. agricultural exports to Thailand and have impacted their competitiveness. Despite the challenges, however, U.S. exports, particularly bulk and intermediate agricultural products, remain strong primarily because tariffs on these products remain relatively low. High value consumer oriented products, on the other hand, have been adversely impacted by the preferential treatments (i.e., lower tariff rates and lifting of tariff rate quotas) enjoyed by Thai FTA partners. On average, import tariffs on U.S. agricultural consumer-oriented products are 10-40 percent higher than products originating from Thai FTA member countries.

The impact of the Thai FTAs on U.S. agricultural exports have varied and trade sources are concerned that in the long run, tariff differentials could significantly hurt U.S. competitiveness if countries like China improve the quality of their products and processing capabilities. Given the significant advantages lower tariffs and preferential market access provide to free trade partners, a similar agreement between the United States and Thailand could level the playing field for U.S. exporters. Thus, Thailand's inclusion in the Trans Pacific Partnership (TPP) could help U.S. exporters remain competitive in the Thai market. The Thai Government has expressed interest in joining the TPP, but has not made any firm commitment about joining the ongoing negotiations.

Appendix

Background on Thailand's FTAs

Thailand's first free trade agreement started with China under the ASEAN-China FTA in 2002, Thailand has continued to liberalize its trade policies in a drive to increase bilateral trade. Thailand has FTA agreements with Australia (2005), New Zealand (2005), India (2006), Japan (2007), and Peru (2009).

Thailand-Australia FTA

The Thailand-Australia Free Trade Agreement entered into force on January 1, 2005. Under the agreement, Thailand agreed to remove tariff barriers for 49 percent of product items in 2005, 96 percent in 2010, and all the products by 2020. Meat, dairy, grains and related products, fruit and vegetables, sugar, wine, beer and spirits and other processed foods will gain the greatest market access over time. Tariffs for hides and skins, wool and cotton were eliminated immediately. Thailand and Australia agreed to impose Special Safeguard Measures (SSG) for most sensitive agricultural products such as beef, pork, offal, dairy products, some fruits, and french fries. These products are subject to higher tariff rates if imports exceed volume thresholds.

Thailand-New Zealand Closer Economic Partnership (CEP)

Thailand and New Zealand's CEP entered into force in July 2005. Thailand agreed to immediately eliminate tariffs and quotas on 52 percent of all imports from New Zealand. Overall tariffs will reach zero in 2020 and largely benefit New Zealand exports of dairy, meat, fruit and vegetables, seafood, forestry products, processed food and beverages. As with Australia, there are SSG protections for sensitive commodities.

ASEAN-China FTA

The ASEAN-China Summit in Brunei in November 2001 established a framework for an ASEAN-China Free Trade Area (ACFTA) within ten years. The framework recognizes differences in the level of economic development among the Parties and provides for economic cooperation in (1) agriculture; (2) information and communication technology; (3) human resources development; (4) investment; and (5) Mekong River basin development.

On June 18, 2003, Thailand and China signed the Early Harvest Scheme on fruits, vegetables, and nuts (harmonized codes of chapter 07-08). Under the scheme, import duties on these products were eliminated in October 2003.

In order to accelerate the implementation of this agreement, the ASEAN Parties agreed to implement an Early Harvest Program. Products covered by the Early Harvest Program include: 1) Products under HS Code Chapter 01-08, unless otherwise excluded by a Party in its Exclusion List; and 2) Specific products set out in Annex 2 of the Agreement. As ASEAN 6 has no exclusion of any product, this means tariff rates for all commodities from Chapter 01 to Chapter 08 were eliminated in January 2007.