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Headline: New sugar trading system from November

New sugar trading system from November

A grower loads harvested sugar cane onto a truck for delivery to a processing plant in Khon Kaen province. PATIPAT JANTHONG

Enforcement of WTO rules ends Quota A

APORNRATH PHOONPHONGPHIPHAT

Thailand, the world's second-largest sugar exporter, is introducing regulations to govern its sugar trading system for the 2017-18 crop, which commences in November, to bring the system in line with World Trade Organization (WTO) rules.

The new system is unlikely to be a game changer, as it is designed to secure sugar supply for domestic consumption, but it will create additional risks for Thai sugar millers, according to industry officials.

Somsak Jantararoungtong, secretary-general of the Office of Cane and Sugar Board (OCSB), which oversees the country's sugar issues, said all related parties including millers, farmers and the government agreed on the new system. It has been designed to govern Thailand's sugar industry in order to secure domestic sugar supply with the repeal of the quota system after more than three decades.

"All parties have agreed to the new system, and we are now working on a legislative process. We expect to start imposing the new regulations by November, when the crushing season normally starts," Mr Somsak said.

Thailand agreed with the WTO to revoke its quota system, known as Quota A, for 2.2-2.5 million tonnes a year to secure sugar supply at home, after it was challenged by Brazil, the world's biggest sugar exporter.

Brazil says Thailand's subsidies for sugar producers had dragged down global prices and allowed Thailand to win a larger market share at the expense of Brazilian producers, conduct that is not in line with international trade agreements.

The Cane and Sugar Fund provides financial support to cane producers through a 70:30 profit-sharing system between sugar millers and cane growers.

The fund raises the money itself, largely from yearly sugar sales.

When the fund does not have enough money, it seeks loans from the state-owned Bank for Agriculture and Agricultural Cooperatives.

After Quota A is slashed, Mr Somsak said all 50 sugar millers will be ordered to set aside a certain amount of white sugar for domestic consumption every month.

The monthly sugar stock required by millers will be determined by each miller's capacity. The bigger the miller, the larger the sugar stock required of it will be.

"If you produce around 10 million tonnes of sugar, you will have to stock around 1 million tonnes of sugar a year," Mr Somsak said.

This is unlikely to create any additional inventory costs for millers as they have to store sugar under Quota A as well.

However, millers say it creates additional risks since they will need to sell sugar on a monthly basis instead of putting aside sugar into Quota A sell the remaining sugar without further constraints.

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"Under the new rule, we need to put the sugar in the stock to secure supply at home, wait until there is no shortage at all in the month before being allowed to sell the sugar, which means we will not be able to commit to sell sugar as easily as we did in the past," said Sirivuth Siamphakdee, chairman of the Thai Sugar Millers Corporation.

Moreover, Thailand also had to revoke the retail fixed price system to comply with the WTO's free trade rules.

As sugar is a key commodity that could directly affect the country's food prices and inflation, the government has been pegging the retail price of white sugar at 22.50 baht per kg for years.

To revoke the fixed price system, the OCSB will calculate a benchmark price to be announced every month based on London white sugar futures prices, which sets the global trend of grade white sugar consumption.

"The price will be monitored closely by the Commerce Ministry to prevent profiteers from selling the sweetener above market prices or above the benchmark price," Mr Somsak said.

Traders and industry officials said freeing up domestic retail sugar prices could lead to possible sugar shortages, particularly when global sugar prices rise.

Traders said sugar production costs in Thailand should be slightly lower than for net sugar importing countries.

This could encourage profiteers to smuggle sugar from Thailand to be resold in the neighbouring CLMV countries (Cambodia, Laos, Myanmar and Vietnam), where sugar prices are around 40% higher than domestic retail prices.

"In CLMV countries, the sugar industry is less developed, forcing them to import nearly 100% of sugar sold, pushing prices higher than domestic Thai prices," one sugar trader said.

Global sugar prices dropped substantially over the past few years from a record high of 36 US cents a pound in 2012 to as low as 11 cents late last year as a glut and the weak global economy cut demand.

The price of benchmark New York raw sugar, which sets global trends, has risen nearly 50% from a record low to 16.51 cents a pound.

Regarding the latest development of China raising its white sugar import tariff, industry officials said Thailand will not be adversely affected by the measure.

On May 22, China said it will impose hefty penalties on sugar imports after lobbying from domestic mills, but experts say the ruling may not go far enough to stem the flow of lower-priced sugar into the country, the world's top importer.

The move could dent imports from top growers such as Brazil and Thailand as it will close the large gap between Chinese and international prices. Chinese sugar prices are around double of those on the London market.

Traders say the higher tariffs is also likely to spur increased smuggling across China's porous southern border, while some imports from major producers may be shipped through third-party nations excluded from the tariffs.