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# The End of Thai Sugar Subsidies

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**In less than half a year, Thailand is expected to finish restructuring its national sugar policy, as a response to Brazilian allegations of subsidising exports. While the details can still change, we already know the general outline of the restructuring and how it will affect key stakeholders. Additionally, we expect price volatility in the short term, as well as consolidation in the long term.**

Over the last decade, Thailand has emerged as the second-largest sugar exporter after Brazil, as sugar exports have tripled from 2.1m tonnes in 2005/06 to 7.2m tonnes in 2015/16. Exports have continued to increase from 6.1m tonnes in 2012/13 to 8.1m tonnes in 2014/15, despite the decline in the #11 NY raw average sugar price from USc 21.4/lb to USc 13/lb during the same period. This caused a backlash with Brazil, which filed a dispute with the WTO against Thailand, claiming that "Thailand's quota and price control system and its supplementary payments to cane growers constitute export subsidies for sugar in violation of Thailand's obligations under the Agreement on Agriculture."<sup>1</sup> As a response, Thailand is working on restructuring the Thai Cane and Sugar Act, which come into effect at the beginning of the next crop year, 2017/18.

While the final version may differ in the details, the restructuring will include the following three changes:

## Removal of the domestic quota system

After the restructuring, millers will no longer be required to set aside an amount of sugar (around 3m tonnes) for domestic sales. So millers are then free to sell their sugar either domestically or internationally. The only requirement is that a minimum amount of 250,000 tonnes of sugar needs to be reserved every month to ensure sugar efficiency in the domestic market.

## Lifting of the domestic sugar price

The domestic sugar prices are currently fixed at a high price above international market levels (USc 24/lb for wholesale ex-factory refined sugar, excluding VAT). This will be replaced with certain formula pricing (i.e. London #5 sugar price and a premium).

## Abolishing the revenue sharing system

Currently, there's a 70% and 30% revenue sharing system between cane farmers and millers. In the new set-up, cane millers and farmers will no longer be paid the differential between the final and the initial set of the minimum cane price.

<sup>1</sup> [Source](#)

The revision of sugar policies is a step in the direction of a free-market system, meaning a shift to self-regulation, which will have an impact on the following stakeholders:

1. **Cane farmers.** As cane farmers will no longer receive any form of compensation or subsidy for farming, they will need to rely on direct financing from millers. Cane farmers will have to improve their farming techniques to increase productivity.
2. **Domestic sugar end-buyers.** These buyers will enjoy sugar prices in a downtrend market. As securing sugar feedstock is critical, entering into a long-term contract to ensure a consistent sugar supply is critical.
3. **Millers.** Millers will be able to allocate sugar production to the market that gives the best price. However, as the Thai sugar market opens up, volatility is bound to increase, so millers will need to look into how best to lock in prices to protect their margins. Free market competition calls for efficient sugar players. The less efficient millers will not be able to compete with the erosion of sugar margins and will close down.
4. **Financial institutions.** Banks have a role to play in providing hedging tools and financing Thai sugar players in terms of new machinery investments to improve sugar production efficiency and ethanol plants as part of the diversification process.

With less than half a year to go before the new sugar policies go into effect, the Thai sugar industry still has to iron out the details and get prepared. In the short term, we expect some volatilities, as domestic players adjust to the new policies. In the longer term, we'll see increasing consolidation in the Thai sugar market, as sugar players move towards increasing efficiency and value-adding to improve margins.

# Imprint

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