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Sugar subsidies poised to rise

Reforms delayed as global prices slump

NANCHANOK WONGSAMUTH **B3**

Delayed reforms and the government's plan to encourage farmers to switch from growing rice to sugar cane will drive up state sugar subsidies, says the Thailand Development Research Institute (TDRI).

"The prime minister wants farmers to switch to growing cane, hoping that it will ease the burden on state subsidies, but she does not know that in reality the reform is unlikely to happen this year," said Viroj NaRanong, research director for the think tank's health, economics and agricultural economics programme.

His comment came in response to the Agriculture and Cooperatives Ministry's initiative for 6.7 million rai now used for rice farming to be converted to sugar-cane plantations, as the areas

are unsuited to growing rice.

The TDRI was hired by the Cane and Sugar Fund (CSF) in 2011 to study ways to restructure Thailand's cane and sugar industry.

One of the key proposals of the study, which was finalised in September 2012, was scrapping domestic price controls that have been in place for three decades.

The floating of sugar prices would trim state subsidies for sugar, but the Cane and Sugar Board (CSB) prefers a partial floating system where a maximum and minimum price should be set with the government providing compensation.

"The CSB has disagreed with almost everything we suggested and are reluctant to implement our suggestions, but they have failed to work out an alternative," said Mr Viroj.

According to the TDRI's study, cane prices will only be subsidised if initial prices are lower than 1,100 baht per tonne at a commercial cane sugar (CCS) sweetness level of 12.

Mr Viroj said part of the Industry Ministry's unwillingness to speed up the reform is the fear that cane growers will receive low prices amid this year's low global sugar prices.

"The 1,200 baht per tonne proposed by sugar-cane planters is unreasonable, especially when production has surged by four- to five-fold in the past 30 years. Market mechanisms will not support these prices, and sugar cane will become like rice and rubber, where farmers are always asking for government intervention," said Mr Viroj.

Chaiwat Khamkaenkhoon, president of the Thai Esarn Sugarcane Planters Association, said more research should focus on the effects of floating sugar prices, as growers have not prepared implementation of the study.

"The TDRI has not done enough field work, especially in the Northeast where costs are high due to the weather. They also fail to take into account increased costs of living," he said.

Sugar-cane planters are lobbying for initial cane prices of 1,200 baht per tonne, as production costs are 1,190 baht, he said.

Meanwhile, the CSF will announce initial prices this week, said secretary-general Somsak Suwattiga.

The board is likely to borrow additional money to compensate growers if they demand a price of at least 1,200 baht.

The CSF gains around 13.5 billion baht in income per year, but it has borrowed more than it has been able to collect with last year's payment of 16 billion baht.

Director Veerasak Kwanmuang said the fund is expected to pay off its 9.1-billion-baht debt by June next year.

With a green light from the Commerce Ministry for the TDRI's study, Mr Viroj said the only obstacle lies in the Industry Ministry.

"The irony is that the cabinet resolution to implement our study has been ignored twice by government officials," he said.