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GAIN Report

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Thailand

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Palm Oil Production-Supply-Demand Update

Report Categories:

Biofuels

Agricultural Situation

Oilseeds and Products

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Report Highlights:

TH5074. As a result of dry weather conditions, crude palm oil (CPO) production for 2015 is estimated to decline by 10 percent to 1.8 million metric tons (MMT) from 2.0 MMT in 2014. However, it is forecast to recover to 2.2 MMT in 2016. Exports of palm oil are likely to drop significantly in 2015 due to the government's price intervention. Total domestic consumption is estimated to grow by 10 percent in 2015 and 11 percent in 2016 in line with higher biodiesel production and increased food use.

Thailand's Oil Palm PS&D from 2014-2016

| <i>Oil, Palm</i> | 2013/2014 | | 2014/2015 | | 2015/2016 | | |
|--------------------------|---------------|----------|---------------|----------|---------------|----------|--------------|
| <i>Market Begin Year</i> | Jan 2014 | | Jan 2015 | | Jan 2016 | | |
| <i>Thailand</i> | USDA Official | New Post | USDA Official | New Post | USDA Official | New Post | |
| Area Planted | 0 | 0 | 0 | 0 | 0 | 0 | (1000 HA) |
| Area Harvested | 655 | 663 | 675 | 690 | 690 | 710 | (1000 HA) |
| Trees | 0 | 0 | 0 | 0 | 0 | 0 | (1000 TREES) |
| Beginning Stocks | 156 | 156 | 78 | 129 | 128 | 99 | (1000 MT) |
| Production | 2,150 | 2,000 | 2,000 | 1,800 | 2,200 | 2,200 | (1000 MT) |
| MY Imports | 24 | 24 | 70 | 60 | 20 | 20 | (1000 MT) |
| MY Imp. from U.S. | 0 | 0 | 0 | 0 | 0 | 0 | (1000 MT) |
| MY Imp. from EU | 0 | 0 | 0 | 0 | 0 | 0 | (1000 MT) |
| Total Supply | 2,330 | 2,180 | 2,148 | 1,989 | 2,348 | 2,319 | (1000 MT) |
| MY Exports | 222 | 271 | 200 | 50 | 200 | 100 | (1000 MT) |
| MY Exp. to EU | 0 | 0 | 0 | 0 | 0 | 0 | (1000 MT) |
| Industrial Dom. Cons. | 1,450 | 1,160 | 1,200 | 1,220 | 1,300 | 1,350 | (1000 MT) |
| Food Use Dom. Cons. | 510 | 550 | 550 | 560 | 590 | 570 | (1000 MT) |
| Feed Waste Dom. Cons. | 70 | 70 | 70 | 60 | 70 | 80 | (1000 MT) |
| Total Dom. Cons. | 2,030 | 1,780 | 1,820 | 1,840 | 1,960 | 2,000 | (1000 MT) |
| Ending Stocks | 78 | 129 | 128 | 99 | 188 | 219 | (1000 MT) |
| Total Distribution | 2,330 | 2,180 | 2,148 | 1,989 | 2,348 | 2,319 | (1000 MT) |
| CY Imports | 24 | 24 | 25 | 60 | 20 | 20 | (1000 MT) |
| CY Imp. from U.S. | 0 | 0 | 0 | 0 | 0 | 0 | (1000 MT) |
| CY Exports | 222 | 271 | 400 | 50 | 400 | 100 | (1000 MT) |
| CY Exp. to U.S. | 0 | 0 | 0 | 0 | 0 | 0 | (1000 MT) |
| TS=TD | 0 | 0 | 0 | 0 | 0 | 0 | |

Executive Summary

Current Situation

Based on a recent survey in major oil palm plantation areas, dry weather conditions throughout Thailand in 2014 and early 2015 are likely to affect oil palm production in 2015. Despite increased harvested area, trade sources reported that unfavorable weather is hurting not only fresh fruit bunch (FFB) output but also overall oil extraction rates, at least in the first four months of the year (Jan-Apr 2015). As a result, crude palm oil (CPO) production for 2015 is estimated to decline by 10 percent to 1.8 million metric tons (MMT) from 2.0 MMT in 2014. Department of Internal Trade (DIT) also reported that CPO production in the first four months of 2015 (Jan-Apr) totaled 590,513 metric tons (MT), down 15 percent from 693,286 MT in the same period of 2014.

Post estimates that CPO production in 2016 should increase to 2.2 MMT given normal weather conditions and continued increase in harvested area.

Deliveries of FFB of oil palm from farmers, which dropped significantly beginning in October, 2014, caused FFB prices to jump from 4.80-5.0 baht/kg (\$150-156/MT) in October 2014 to 5.80-6.20 baht/kg

(\$181-194/MT) in December 2104. This prompted the Thai Cabinet on January 20, 2015 to allow one-time imports of 50,000 metric tons (MT) of crude palm olein oil in February 2015, and to temporarily lower the mandatory vegetable oil content requirement in biodiesel by 50 percent (from the mandate of B7 to B3.5), which will freed another 60,000 MT of palm oil each per month for cooking oil production.

Prices for FFB and CPO began to decline sharply when the new crop supplies entered the market in March 2015. FFB prices in Krabi Province dropped from an average of 5.98 baht/kg (\$181/MT) in February 2015 to 4.53 baht/kg in March, 3.81 baht/kg in April, and 2.80-3.50 baht/kg in the first week of May. A group of farmers voiced their disappointment to the government blaming the plummeting prices on the government's palm oil import in February. However, trade sources said that increased FFB deliveries and weakened global palm oil prices are the main reasons for this problem.

In response to farmers' calls, the National Palm Oil Policy Committee (NPOPC), a joint committee consisting of representatives from oil palm farmers, CPO crushers, palm oil refinery, and relevant government offices, recommended a series of measures.

On April 30, 2015, the Ministry of Commerce initiated an administrative measure which set recommendation prices for FFB at 4.00 baht/kg (\$121/MT) and CPO at 25.0 baht/kg (\$758/MT). Then, on May 20, 2015, the NPOPC announced several additional measures to tackle problems in the palm oil industry including: 1) set up recommendation prices for FFB at the oil content of 17% at 4.20 baht/kg (\$127/MT) and for CPO at 26.20 baht/kg (\$794/MT) effective for a three-month period (May-July); and 2) allocate a fund of 2,953 million baht (\$89 million) to Public Warehouse Organization (PWO) to absorb 100,000 MT of local CPO in a period of June-November 2015 as stocks.

On April 16, 2015, Department of Business Energy, in an orchestrated action with the NPOPC, announced its enforcement of the mandatory B7 requirement instead of B3.5 mandate which was adopted in mid-January 2015.

According to trade sources, the government's price distortion measures are likely to create negative impacts on the Thai palm oil industry.

First, Thailand is losing competitiveness in palm oil export. Palm oil exports in the first four months of 2015 (Jan-Apr) dropped by 81 percent to 14,095 MT from 74,126 MT in the same period of 2014. Post estimates that total exports in the whole year of 2015 should not be more than 50,000 MT, as compared to 271,000 MT in 2014.

Second, price intervention is making the price difference between Thai CPO prices and Malaysian CPO prices wider at 6.00-8.00 baht/kg (\$180-240/MT). The high price gap will definitely attract more palm oil smuggling activities along the Thailand-Malaysia border.

Total domestic consumption is estimated to grow by 10 percent and 11 percent in 2015 in line with higher biodiesel production and food use.

The Outlook of Thai Palm Oil Industry

Since ASEAN Economic Community (AEC) will be effective in January 2016, Thailand will encounter a big challenge regarding the country's competitiveness in producing palm oil as compared to two AEC member countries, i.e., Malaysia and Indonesia. Thai CPO production, even without price intervention, is perceived to be less competitive than supplies from those two countries. After 2016, Thailand will find it more difficult to maintain its price intervention program without an influx of cheaper palm oil from Malaysia and Indonesia into the country and erosion in export opportunities.

Currently, palm oil stakeholders have different views on the future of Thai palm oil industry. While some cited that Thailand may be badly affected once the AEC is in place, others stated that Thailand may impose some safeguard measures against palm oil importation. In addition, some stakeholders believe that the Thai industry will be able to reduce its cost of production to a level comparable to Malaysian and Indonesian palm oil if the government assists in tackling the problem of delivering unripen FFB to palm oil crushers and a lack of good farm practices affecting FFB productivity.