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Thailand

Trade Policy Monitoring

Thai Cabinet Increases Potato Quota

2003

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Report Highlights:
The Thai Cabinet agreed to allocate import licenses for fresh potatoes for chip processing at a level of 25,400 tons for 2003. Thailand's WTO TRQ commitment for fresh potatoes is only 300 tons.

Includes PSD Changes: No
Includes Trade Matrix: No
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The Thai Cabinet agreed on July 29, 2003, to expand the tariff-rate-quota for fresh potatoes for chip processing by 25,400 tons for import in 2003, which exceeds the amount of 300 tons WTO committment. The in-quota imports are subject to a 27 percent tariff rate, as opposed to 126.4 percent on out-of-quota imports.

The quota will be allocated to 3 companies as follows: a) Pepsi Cola (Thai)- 15,000 tons; b) Berli Juker Co.- 7,600 tons; and c) Unichamp Co.- 2,800 tons. It was also stipulated that the in-quota imports are eligible only for shipments delivered to Thailand from July-December 2003.

This is likely to end a long on-going argument from the processors (including Frito Lay Thailand, a.k.a. Pepsi Cola Thailand), which struggled to get more than the 300 tons with in-quota duty to cover the period when Thai potatoes are not available. Although chip processors in Thailand contract fresh potato production for processing, there are not enough of these tubers in Thailand. This is a result of rapidly growing demand and weather constraints that limit local production.

Industry sources reported that the three importers would buy some potato from the US and Canada. However, most of the imported potatoes for this year are likely to be supplied by China and Australia, due to the cost advantage of their proximity to Thailand. Trade sources also reported that all importers have difficulty in accessing imported potato supplies since they don't usually have the import paperwork in hand well enough in advance to contract for the tuber production.

<u>Background</u>

Imports of potatoes into Thailand come in the categories of seed potatoes, fresh (table) potatoes, and processed potatoes (frozen French fries, etc.). Importers of these three broadly defined types of potatoes are:

Seed potatoes: snack food processors (chip/crisp makers) to distribute to contract farmers
Fresh potatoes: food retailers and food importers who service up-market HRI
Frozen potatoes: quick service restaurants and food importers who service QSR

The three potato categories are interrelated regarding the Royal Thai Government's (RTG) willingness to allow imports or to reduce tariff and non-tariff barriers to importation despite being separate and unique in their use. The trade barriers industry faces include:

Seed potatoes: TRQ quota allocation are made in an untimely manner and a requirement on phytosanitary permits;
Fresh potatoes: TRQ quota allocation are made in an untimely manner and a requirement on phytosanitary permits;
Frozen potatoes: high tariff.

The RTG controls access of unprocessed (raw) potatoes via a quota mechanism as established under the WTO Uruguay Round. Thailand is committed to allow imports of 300 tons of seed and fresh potatoes (combined) in 2003 at a tariff rate of 27 percent as a tariff rate quota (TRQ). The out of quota duty is 126.4 percent. The committed in-quota amount will increase to 302 tons in 2004 at a tariff rate of 27 percent, and the out of quota duty in 2004 will be 125 percent. Frozen potatoes can enter Thailand relatively easily (without quota) but the applied (not bound) duty is 30 percent or 25 baht/kg – whichever is higher.

The basic position of the RTG is to discourage potato imports in an effort to encourage domestic production. The limitation is that domestic potato production is not able to supply the same amount or quality of fresh potatoes needed by retailers or HRI due mainly to weather constraints. Likewise, domestic production of chipping potatoes is only adequate to keep processing facilities running from January to August. This means that chipping plants run at very low capacities from September to December. Processors have long sought dependable and predictable access to fresh potatoes from overseas to use during this period of low domestic availability.

The three hundred tons of fresh potatoes under the TRQ is far from enough to keep the plants running at efficient capacity for four months during low domestic supply. In 2002, the RTG delayed its consideration to allow potato imports in excess of the 300 tons so that importers was able to bring in less than 1,000 tons of fresh potatoes, far short of the allocated quota of 22,100 tons. The RTG is apparently repeating again the same slow process in issuing a quota for 2003 although chip processors made their requests far ahead.