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Thailand

Trade Policy Monitoring

The Thai Plan to Reduce Import Duties - Maybe

2003

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Report Highlights:
A recent Thai Cabinet's announcement of a plan to reduce tariffs on more than 400 items of agricultural products fizzled when it became apparent that only a few products are subject to this change in import duty.

Includes PSD Changes: No
Includes Trade Matrix: No
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On July 29, 2003, the Thai Cabinet approved a plan to restructure the customs tariff schedule for 1,511 product items in order to increase the competitiveness of domestic manufacturers and resolve the problems of discrepancies in the current import tariff structure. The Royal Thai Government announced that 464 items under this scheme are agricultural products and processed foods while 1,047 items are industrial goods.

However, there are some ironic aspects to this cabinet approval. First, according to the Cabinet synopsis, out of a total 1,511 products, 403 items on the list (not explicitly referred to as either agricultural products or industrial products) will be categorized as a reserved list for international trade negotiations in the future. Second, after scrutinizing the details in the proposed tariff plan, it is apparent that there will be no change in tariffs for most of the agricultural products: the tariffs for these products are just being reduced to the WTO bound rates in 2004, the last year of the current WTO tariff reduction scheme. Third, only a few categories of products are actually subject to an explicitly reduced tariff schedule. This includes wheat, wheat flour, and peas and lentils:

1) Wheat grain (both durum and meslin): The tariff will be reduced from 1.00 baht/kg to 0.10 baht/kg;
2) Wheat flour: The tariff will be at 22.5% (or 1.55 baht/kg) as of the to-be-notified effective restructuring date in 2003 and in the year 2004. The tariff rate will be further reduced to 5% (or 0.50 baht/kg) as of Jan 1, 2005. The current WTO bound rate in 2003 is 32.6% (or 2.24 baht/kg);
3) Peas, beans, and lentils (HS code 0713): The tariff will be reduced to 30%, as opposed to the WTO target bound rate of 40%.

According to government officials, the new tariff plan on these products will be officially implemented in the next few months.

Although a reduction in the tariff for both wheat and wheat flour should lead to decreased prices for wheat flour and to a possible expansion in wheat product consumption, it is still doubtful that this tariff reduction will generate better opportunities for U.S. wheat exports to Thailand in general.

According to trade sources, the larger reduction in the wheat flour tariff (in terms of value equivalence) compared to that of wheat will benefit imported wheat flour, rather than imported wheat. The local flour market segment that will be affected the most is that of the low premium items, especially biscuit flour. Trade sources report that, because of a lack of brand loyalty and fierce competition from imported flour, all domestic flour mills are currently selling biscuit flour at prices close to their break even points, 310-320 baht/bag (US$ 7.40-7.60/22.5 kgs. bag) against costs of 300-305 baht/bag. The situation will become worse for imported wheat when the tariff reduction schedule is fully implemented: locally-made biscuit flour will be reduced by 27 baht/bag, while imported wheat flour will get a reduction of 50.63 baht/kg.

If this is the case, Thailand will likely increase its imports of relatively cheaper flour, especially low premium items, from Malaysia and Australia, at the expense of U.S. wheat. U.S. wheat currently accounts for about 40-50 percent of total wheat imports (about 380,000 tons in 2002) while the other two primary suppliers are Canada and Australia.