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Thailand May Cede No. 1 Rice Ranking to Raise Rural Incomes (2)  
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(Adds flooding damage in sixth paragraph, cost of program in 16th paragraph.)

By Supunnabul Suwannakij and Daniel Ten Kate

Sept. 13 (Bloomberg) -- Thailand is willing to relinquish its role as the world's biggest rice exporter as the government prepares to buy grain directly from farmers to boost prices and rural incomes, Deputy Prime Minister Kittiratt Na-Ranong said.

"We will not back off," Kittiratt said in an interview yesterday. "If we cannot help our farmers, what is the point of being the government in this country? I'm not proud of being the largest exporter. I'm proud that Thai farmers can grow and sell their products at reasonable prices and they can smile."

Prime Minister Yingluck Shinawatra aims to insulate the country of 66 million people from a global slowdown by lifting incomes of poorer Thais who propelled her party to victory in a July election. The plan to guarantee rice prices may boost export rates by almost 20 percent and erode the nation's share of the global market, said Sarunyu Jeamsinkul, deputy managing director at Asia Golden Rice Ltd., Thailand's largest shipper.

"That will be trouble for exporters," Sarunyu said by phone from Bangkok. "It would be difficult to get deals done at that price." The export price may climb to \$750 a metric ton, Sarunyu said. It was at \$629 as of Sept. 7, the highest level since December 2009, according to the Thai Rice Exporters Association.

Rice futures rose 0.3 percent to \$18.42 per 100 pounds on the Chicago Board of Trade as of 3:13 p.m. Bangkok time, poised for the highest close since Sept. 30, 2008.

#### Shipments to Decline

Shipments from Thailand, which account for about 30 percent of world rice exports, are expected to fall to 8 million metric tons next year from an estimated 10 million tons this year, according to the U.S. Department of Agriculture. Exports by Vietnam, the second-largest shipper, may fall 8.6 percent to 6.4 million tons next year, the USDA estimates.

Flooding in Thailand may damage at least 2.4 percent of the main rice crop, bringing output to about 24.5 million tons, according to the Office of Agricultural Economics. The main crop, planted in May and harvested in October, represents about 70 percent of Thailand's total annual production, Apichart Jongskul, the office's secretary-general, said in a phone interview.

"I believe that if we have to suffer with smaller export amounts, the total value of exports will be more," Kittiratt said in Bangkok. Overseas sales jumped 55 percent to 8.3 million tons this year through Sept. 5, according to the Thai Rice Exporters Association.

## 47 Percent Higher

The government plans to pay 15,000 baht per ton (\$498) for unmilled white rice and 20,000 baht for Hom Mali fragrant rice, as much as 47 percent above current market rates, according to Bloomberg News calculations based on data from the Thai Rice Mills Association. Purchases are due to start on Oct. 7.

Thailand's effort to raise farm incomes may fuel price gains across a region that the USDA estimates accounts for 87 percent of global rice consumption. Thailand has been the world's largest exporter since 1981, according to the USDA.

"We're not talking about pushing up the price three, four, or fivefold so that people will switch to consume bread or other grains," Kittiratt said. "I'm confident the price we're offering is reasonable. I'll not be happy if the price surges higher than what we suggest."

Competing suppliers may also take the opportunity to raise prices, Abah Ofon, an analyst at Standard Chartered Plc, said in an interview with Bloomberg Television today.

### 'How Long?'

"Up to 12 months, there is a risk we see that elevation staying in place," he said. "The question is how long can Thailand continue to buy rice at the rate it has set?"

The price of 100 percent grade-B Thai rice, the benchmark for Asia, has gained 21 percent since the July 3 election on expectation that Yingluck would resurrect a policy first introduced by her brother, Thaksin Shinawatra.

About 35 percent of Thais made their living growing crops last year, according to data from the Office of Agricultural Economics. During the election, Yingluck's Pheu Thai party won 153 of 195 seats in the north and northeast, where incomes are about a third of those in Bangkok.

In 2008, when Thaksin's allies were last in power and the government had a similar policy, it spent about 130 billion baht to buy 10.5 million tons of rice from almost one million farmers, according to the Bank for Agriculture & Agricultural Cooperatives. The government expects to use as much as 400 billion baht on the rice-price guarantee program, which will run from Oct. 7 until Feb. 29, deputy government spokeswoman Anuttama Amornvivat said today.

### 'Working Capital'

Funding for the rice program is not included in the government's budget deficit estimated at 350 billion baht for the fiscal year starting Oct. 1, Kittiratt said yesterday.

"We'll take the rice in as working capital so it is not an outright budget," he said.

Losses from selling rice below purchasing costs in 2008 were estimated at 43 billion baht, data from the bank showed. Former Prime Minister Abhisit Vejjajiva's government spent 47 billion baht in 2009 on income support for farmers, according to the bank.

Local prices rose to a record 17,000 baht per ton in April 2008 and export rates hit an all-time high of \$1,038 per ton the following month after India, China and Vietnam curbed shipments, spurring unrest from Haiti to Egypt.

'Beg for Understanding'

"Everyone in the business can look at the price of rice five years ago and the price of wheat five years ago and look at the percentage increase," Kittiratt said. "What we're suggesting isn't even trying to outpace other comparable choices. What we're trying to do is to beg for the understanding of buyers and consumers."

The USDA raised its estimate for global rice production to a record 458.4 million tons for the 2011-2012 crop, buoyed by larger expected harvests in Brazil, China, the Philippines and the U.S., according to a Sept. 12 report. That would be a second year of record supply, outpacing consumption and lifting ending stocks to the highest level in nine years, the USDA said.

Global trade in rice is estimated to fall 4.2 percent to 31.8 million tons next year, the USDA said.

"As we go forward, demand and supply fundamentals are going to come to bear," Ofon said. "There isn't a shortage of rice in the market. We're actually seeing a decrease in per capita consumption of rice in this region. As people get richer they switch from rice to other higher protein meals."

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