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SWEET SUCCESS AHEAD

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Bangkok Post - 8 February 2010

Lower costs under Afta open up new potential for Thai sugar producers at a time when world prices are at 28-year highs and rivals including Brazil and Australia face poor harvests.

Thai sugar producers see more opportunities to expand in overseas markets thanks to tariff reductions under the Asean Free Trade Agreement (Afta) and a global shortage that has pushed sugar prices to record highs.

According to the latest research by the United States Department of Agriculture (USDA), world sugar production for the 2009-10 crop year is estimated at 153.3 million tonnes, against consumption of 153.7 million tonnes.

The change in world production and trade patterns is highlighted by lower production in Brazil, which accounts for 23% of global output. Production in Asia, which accounts for 35% of global output, mainly in India and China, is also slipping.

However, the USDA forecast that output in Thailand, one of the world's top producers, should rise by 200,000 tonnes to 7.7 million tonnes.

Prasert Tapaneeyangkul, secretary-general of the Office of the Cane and Sugar Board (OCSB), says the next two years will be golden years for sugar producers because Brazil and India have faced weather problems that will curb production and could lead to shortages in their domestic markets.

However, the UN Food and Agriculture Organisation (FAO) has indicated that Brazilian and Indian production should be sufficient to cover demand by the end of the marketing year.

India is now forecast to be the world's largest net sugar importer in 2009-10 with 6 million tonnes. Exports from Brazil for 2009-10 are forecast at 23.9 million tonnes while Thailand is expected to export 5.8 million tonnes.

Kasikorn Research Center says crop prices should continue to increase this year, especially for sugar, cassava, rubber and rice, because of the impact on global crops of weather conditions including El Nino, and insect infestations, while demand would continue to rise.

The big advantage for the Thai sugar industry, though, will be zero tariffs under Afta, which should allow producers to export more widely at lower cost, since their logistics costs will be cheaper than those of main rivals Australia and Brazil.

During the first 10 months of 2009, Thailand exported 1.59 million tonnes of sugar at a value of US\$565.2 million to Asean, or around 36.5% of its total sugar exports. Indonesia is the country's main market in Asean followed by Cambodia, Vietnam and Singapore.

However, Thai agricultural product exporters should beware of new players, especially Burma, Cambodia and Laos. Production in these less-developed countries is rising with the development of irrigation systems and production technology by foreign investors, attracted by generous incentives for cultivation to product processing.

Among those investors are Thai companies looking to tap potential next door and control their costs.

Having successfully operated sugar mills in the challenging market of China, Thailand's leading miller, Mitr Phol Group, is looking to expand its operations in Cambodia and Laos very soon.

The planned investment by Mitr Phol follows the opening of a mill in Cambodia by its SET-listed competitor Khon Kaen Sugar Industry (KSL) last month, which came at an opportune time as sugar prices are at a 28-year high.

Mitr Phol said that by investing in Laos and Cambodia, it will benefit from the tariff privileges the two countries gain from export markets such as the European Union. The EU offers low tariffs under its generalised System of Preferences (GSP) to help less-developed countries expand trade and lift the living standards of their people.

The two neighbouring countries are among 19 developing nations entitled to duty-free sugar exports to the European Union under the Everything but Arms (EBA) programme.

KSL's hopes that its first shipment of brown sugar to the European markets would be made in May this year.

KSL's plant has a full cane-extracting capacity of 700,000 tonnes per year. Its maximum raw-sugar production amounts to 70,000 tonnes annually, of which 40% are expected to be processed into refined sugar in the future.

On the other hand, Mitr Phol sees these investments as providing a greater competitiveness to its operations.

"As a result, the company's competitiveness in neighbouring countries will be higher," said Mitr Phol Group chairman Isara Vongkusolkit.

In Laos, the company has established Sugar Mitr Laos in Savannakhet, which started commercial operations in 2008. Its total sugar output should be around 23,000 tonnes this year. About 95% of the output will be exported to the EU and the rest consumed locally.

"We plan to extend the growing area in Laos from 50,000 rai at present to between 70,000 and 80,000 rai in 2011," Mr Isara added.

However, Mitr Phol has been unable to expand in Cambodia because of a labour shortage, something KSL has also identified as a problem at its new Cambodian mill. Mitr Phol will, however, focus on Cambodia within the next two years once the plant in Laos is running at full capacity.

Mitr Phol has a 90-year concession for planting sugarcane by the Cambodian government, covering 100,000 rai. It is likely to invest 1-2 billion baht in the first phase.

Mr Isara said, however, that because the company's first investments were in Laos, it wanted to strengthen those operations first.

Mitr Phol also operates seven sugar mills in China with total capacity of 1.1 million tonnes per year.

Chamroon Chinthammit, the president and CEO of KSL, said sugar prices were expected to rise above 30 US cents a pound soon and remain high until 2011. Prices are being supported by high demand and short supply, as well as speculation by hedge funds to some degree, he said.

KSL this year inaugurated two new companies, Koh Kong Sugar Industry and Koh Kong Plantation in Cambodia with other Cambodian and Taiwanese partners, representing investments worth \$100 million. The company holds a 90-year farming concession for 20,000 hectares in Koh Kong with an estimated 240,000 tonnes of sugarcane to be harvested in the 2009-10 season. All of the raw sugar will be sold to the EU.

Mr Chamroon also said the company was thinking about producing white sugar with a capacity of 300 tonnes a day with a total investment value around 300-500 million baht within the next two to three years.

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