# SMEs & Food Industry

### Definition and Classification of Small and Medium Enterprises (SMEs)

According to 2002 ministerial regulation of the Ministry of Industry of Thailand, SMEs are classified based on the number of employees and their fixed asset value according to the table below.

**Type of enterprise**

| | **Small** | **Medium** |
|---|---|---|
| **No. of employees** | 50 or less | 51 - 200 |
| **Fixed asset value (million Baht)** | 50 or less | More than 50 and not more than 200 |

### Types of SMEs

| No. | Type | Description |
|---|---|---|
| 1 | A legal person | A living person according to the Civil and Commercial Code (Section 15) |
| 2 | Legal body | A group of legal persons (2 or more) who enter into a legal agreement to form and enterprise without any intention to divide any profit from the business activities (Tax Entity according to Section 56 of Thailand Fiscal Code) |
| 3 | Partnership that is not incorporated | A group of legal persons (2 or more) who enter into a legal agreement to form and enterprise together with intention to divide any profit from the business activities (Tax Entity according to Section 56 of Thailand Fiscal Code) |
| 4 | Ordinary/Universal Partnership | A group of legal persons (2 or more) who enter into a legal agreement to invest and own an enterprise together. The partners will be responsible for all business activities and must register the enterprise according to Thai Civil and Commercial Code |
| 5 | Limited Partnership | A group of legal persons (2 or more) who enter into a legal |

| | | |
|---|---|---|
| | | agreement to invest and own an enterprise together. The partners can have either limited responsibilities or unlimited responsibilities for all business activities and must register the enterprise according to Thai Civil and Commercial Code |
| 6 | Limited Liability Company | A group of 7 legal persons or more who enter a legal agreement to invest and own an enterprise together. Each individual share holder's responsibilities will not exceed the value of their parts of the capital investment. The enterprise must be registered according to Thai Civil and Commercial Code |
| 7 | Public Company Limited | An enterprise that intends to sell a part of its share (stock) to the public whose responsibilities will not exceed his/her stock value that they must pay. The enterprise must indicate this intention in Memorandum of Association according to Section 15 of Act of Parliament for Public Limited Company |
| 8 | Joint Venture | Joint operation for trading or seeking profit between company and company, company and partnership enterprise, partnership enterprises or company and/or partnership enterprise and legal person, legal body, ordinary partnership or other legal entities is a legal entity according to Section 39 of Thai Fiscal Code |
| 9 | Foreign Corporation | A company or partnership enterprise that was legally acknowledged by another country. |
| 10 | Foreign Government Agency or any for-profit activities by any Foreign Government | Foreign government's activity or agency must pay tax on their profit according to Section 39 of Thai Fiscal Code |
| 11 | Foundation or Association | According to Section 39 of Thai Fiscal Code, foundation and association are legal entities that must pay tax on their income but tax exemption will be granted to any foundation or association that are declared as non-profit public organization by the Ministry of Finance of Thailand |

## The Definition of Food by Thai FDA

Food is defined by the Ministerial Regulation No. 1 B.E. 2522 (1979) (Issued pursuant to the Food Act B.E 2522 (1979)) as SECTION 4. In this Act, *"Food means edible items and those which sustain life"* that can be either

(1) Substance can be eaten, drunk, sucked or gotten in to the body either by mouth or by other means, no matter in what form, but not including medicine, psychotropic substances, narcotic under the law as the case may be *or*

(2) Substance intended for use or to be used as ingredients in the production of food Including food additive, coloring matter and flavoring.

Figure 1 shows decision rules to guide that which product will be classified as food.

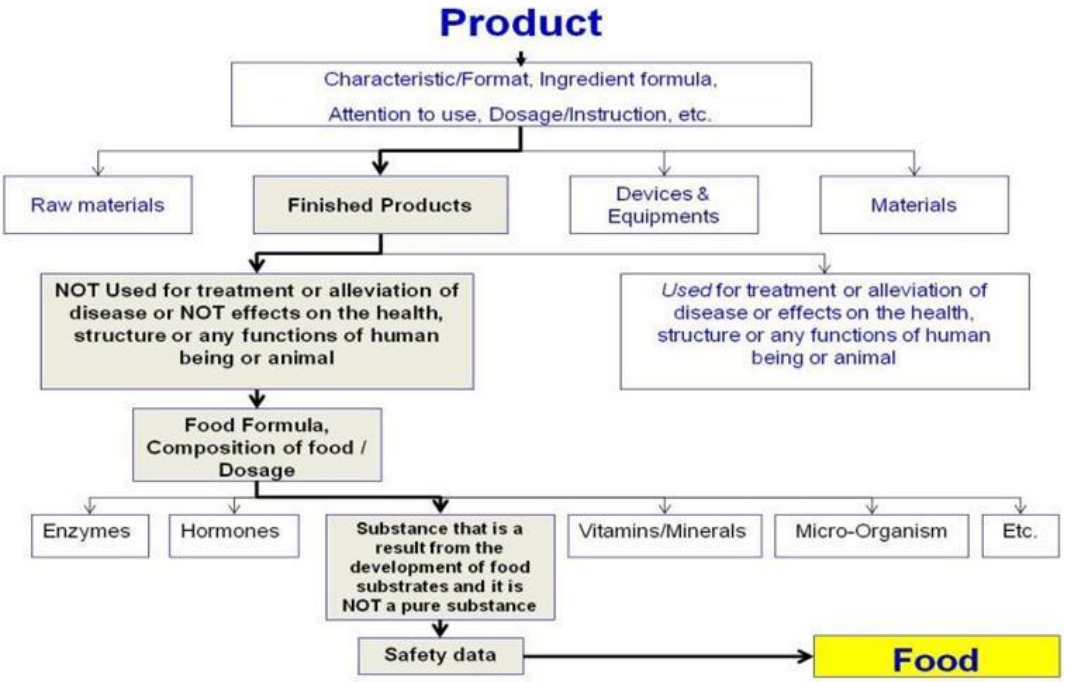



**Figure 1 Decision flow chart for deciding that a product can be classified as food or not**

In addition to a generic definition of food, the government classified food into 3 groups: 1) Specific Controlled Food, 2) Prescribed food to have quality or standard and 3) Prescribed food to have label.

Specific Controlled Food is a special class of food that is published in the Government Gazette by the Minister as the quality or standard control food. Some of the examples are listed in Figure 2.

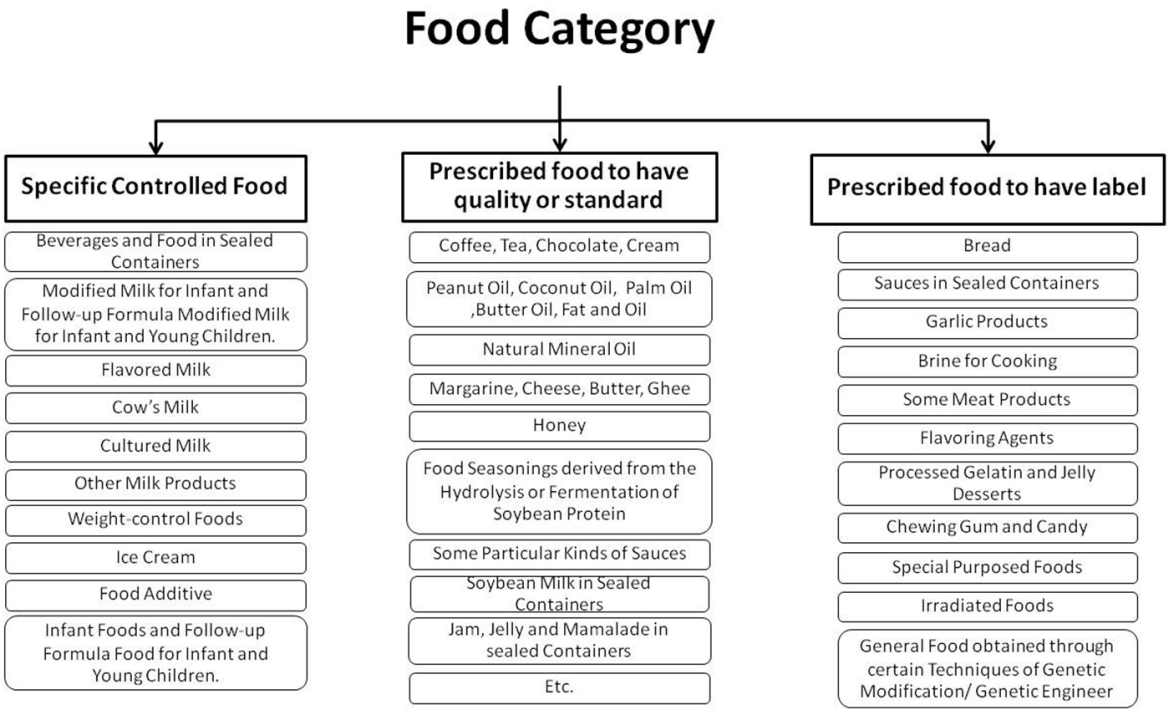



**Figure 2 Examples of food items that fall in one of the three classes of food defined by Thai FDA**

## Food Control in Thailand

### *Food Control*

The Minister of Public Health is the official government branch that is in charge of the execution of the Food Act B.E. 2522 (1979) and is empowered to appoint competent officers, promulgate regulations and set other activities in order to carry out the provisions of this act. In addition, there are various food control activities that are undertaken by other organizations as well. The Ministry of Public Health created the Food and Drug Administration (Thai FDA) and the Provincial Offices of Public health to carry out the duty by the virtue of Food Act B.E.2522 (1979). These two organization are responsible for legal food control operation with support from the Deparmnt of Medical Sciences for food analytical services. The primary roles of Thai FDA are to implement and enforce the law; and also to guarantee the quality and safety of food by means of:

1.1 setting up food standard and specification as well as hygienic and labeling requirements

1.2 controlling of the production and importation of food products.

1.3 approval for registration of specific-controlled food.

1.4 approval for advertisement.

1.5 approval of packaging materials.

1.6 inspection of food manufacturing premises and salers.

1.7 sampling and quality assessment of food products

1.8 taking legal action eg. Seizure, product recalls, prosecution.

1.9 conduction epidemiological study

1.10 promotion of consumer awareness and voluntary compliance of food manufacturers.

1.11 controlling of food plants to meet national standard by using GMP.

1.12 Collaboration with government agencies, private sectors as well as international organizations in the manners of technical cooperation.

1.13 To assemble, disseminate and exchange information related to food.

1.14 issuing of certification

a) Certification of Free-sale

b) Sanitary Certification

c) GMP Certification

d) HACCP Certification

## *Regulatory Procedures*

There are three major junctures in food industry where Thai FDA will enforce the law: 1) Pre-marketing, 2) Post-marketing and 3) Food Surveillance. Food Control Division of Food and Drug Administration (FDA) is responsible for regulating food control activities as follows:

### *1. Pre-marketing Control*

This step will begin when the food is produced or imported into Thailand and end before any advertisement to the public will be made. Activities in this step include issuance of Manufacturing License and Importation License to manufacturer and importer respectively ; registration of controlled food products before marketing ; approval of food additives to be used in foods, labeling and advertising approvals.

1.1 Manufacturing License

To guarantee the safety of food produced from any plants in Thailand, plant lay-out is to be submitted for approval and plant inspection by food inspector is required before and manufacturing license is issued. This license is to be renewed every three years.

1.2 Importation License

A license is required in order to import food into Thailand. A licensed importer may import various kinds of food providing that they are approved by the Thai FDA. The designated storage or warehouse has to be inspected and approved by the Thai FDA before a license is issued. An importation license is to be renewed every three years as well.

1.3 Product Registration

If a food product, either manufactured or imported, is categorized as Specific- Controlled Food, it must be registered. Analysis of the product as well as details of the process and ingredients are required for the registration process and the

standard of these food products have to meet the standard specified in the Ministerial Notification. This is where food safety and manufacturing inspection will be performed.

1.4 Labeling Approval

Some products such as dietary supplement are required to bear labels containing Thai language and subjected to be approved by Thai FDA prior to sell in the market. For food products, in general, labeling must follow the Notifications of the Ministry of Public Health No.194 (B.E.2544).

1.5 Advertising Approval

Any form of advertisement for food through any media is subjected to be approved by Thai FDA. False or deceptive advertisement on quality or benefit of food is prohibited.

### *2. Post-marketing Control*

Post-marketing Control deals with enforcing the law to ensure that food sold in Thailand are wholesome and have quality that complies with the national food standard. To enforce the law, food factories and premises throughout the country are inspected regularly. Food products are analyzed to ensure compliance with legal requirements. Any violations are punishable by law such as seizure of food, recall and prosecution against the manufacturers, distributors or importers. In general, there are two types of inspections :

2.1 Regular Inspection: this is planned inspection to ensure that the FDA annual plan on food has been done successfully.

- Routine Inspection: this is a periodic inspection particularly to the premise received licenses.
- Surveillance Inspection: to inspect manufacturing premises, warehouse for importer, sellers to comply with the regulation concerned.
- Point of Entry Inspection: this is done by food inspectors stationed at the ports to ensure the safety of food products entering into the country comply with the regulations concerned.

2.2 Suspected or Petitioned Inspection

- This is a particular type of inspection with specific aim to investigate and gather necessary evidence for taking legal action.
- This includes an inspection to find out the cause of the complaint or rejected food from the importing country, so as to solve the problems of food manufacturers and food products.

### *3. Food Surveillance*

The aim of food surveillance is to assure the safety and quality of food items distributed in market place. Food surveillance is conducted by several ministerial organization and Thai FDA also plays a main role in this activity. Food are taken from market place and then analyzed to ensure the conformity to the standards.

### *Other organization concerning food control in Thailand*

1. Department of Medical Science, Ministry of Public Health provides food analytical services for all food control activities of the Food and Drug Administration.
2. Provincial Institute : At the provincial level, Provincial Health Offices (76 Provinces) throughout the country are delegated by the FDA to take responsibility for certain extents according to the Food Act. The Provincial Health Offices are in charge of food control in each provincial boundary. It coordinates its policies with the Central Institute (FDA) and its duties and responsibilities are similar to those of the FDA. These provincial personnel are to be trained, supervised and guided by the FDA.

## The Definition of Food Industry

"Food Industry" is an industry that manufactures semi-finished or finished goods for further uses or eating from agricultural raw materials that are produces, farm products and fishery products by using any manufacturing process(es).

### *Food Industry Classification*

National Statistics Office uses International Standard Industrial Classification (ISIC) Level 2 Section 15 (ISIC 15) to classify food industry into 17 categories.

1. Production, processing and preserving of meat and meat products (ISIC1511)
2. Processing and preserving of fish and fish products (ISIC 1512)
3. Processing and preserving of fruit and vegetables (ISIC 1513)
4. Manufacture of vegetable and animal oils and fats (ISIC 1514)
5. Manufacture of dairy products (ISIC 1520)
6. Manufacture of grain mill products (ISIC 1531)
7. Manufacture of starches and starch products (ISIC 1532)
8. Manufacture of prepared animal feeds (ISIC 1533)
9. Manufacture of bakery products (ISIC 1541)
10. Manufacture of sugar (ISIC 1542)
11. Manufacture of cocoa, chocolate and sugar confectionery (ISIC 1543)
12. Manufacture of macaroni, noodles, couscous and similar farinaceous products (ISIC 1544)
13. Manufacture of other food products n.e.c. (ISIC 1549)
14. Distilling, rectifying and blending of spirits; ethyl alcohol production from fermented materials (ISIC 1551)
15. Manufacture of wines (ISIC 1552)
16. Manufacture of malt liquors and malt (ISIC 1553)

17. Manufacture of soft drinks; production of mineral waters (ISIC 1554)

## *Food Industry Production Capacity*

The growth from the year 2008 to 2009 was forecasted to be 5.8% that was 170,00 metric tons increase from 27.99 million metric tons in 2008. The increase was attributed by the following factors.

### *Types of products*

Overall production capacity of Food Industry (excluding sugar) in 2009 was forecasted to increase from 2008 around 3.6%. Below were the details for each sector.

1. **Meat and meat products:** Frozen fresh chicken and processed chicken are important contributors for the growth. It was expected to be 26.5% growth (or 1,999,700 metric tons) compared to 2008.
2. **Fish and fish products:** The main contributors for the growth were shrimp and shrimp products and tuna products with the expectation of 1.2% growth (or 976,702.6 metric tons) compared to 2008
3. **Fruit and vegetables:** Canned pineapple and canned sweet corn was expecting 3% growth (or 1,005,244.3 metric tons) from 2008
4. **Vegetable oil:** The production was expected to increase around 3% (or 1,889,055.9 metric tons) compared to 2008
5. **Dairy products:** The production was expected to increase around 4.5% (or 067,401.4 metric tons) compared to 2008
6. **Grain mill products, starch and starch products:** The production was expected to decrease around 15% (or -1,431,939,9 metric tons) compared to 2008
7. **Animal feeds:** The production was expected to increase around 3.6% (or 7,446,487 metric tons) compared to 2008
8. **Sugar:** 3% decrease (or -12,286,282.9 metric tons) were expected in 2009
9. **Instant noodle:** Stable production (~160,052.5 metric tons) were expected in 2009

The sectors with marginal increase in production (1%-4%) were Fish and fish products (1.2%), Fruit and vegetables (3%), Vegetable oil (3%) and Animal feeds (3.6%); meanwhile, Meat and meat products sector expanded the most with 26.5% increase in production.

The sectors with marginal decrease in production were Dairy products (4.5%) and Sugar (3%) and the most decrease in product in 2009 (compared to previous year) was Grain mill products, starch and starch products with 15% decrease in production.

Only one sector, Instant noodle, was expected no growth in 2009 (from 2008).

| | **Production capacity (metric tons)** | |
|---|---|---|
| **Sector** | **2008** | **2009** |

| | | |
|---|---|---|
| Meat and meat products | 1,580,790.5 | 1,999,700.0 |
| Fish and fish products | 964,699.4 | 976,702.6 |
| Fruit and vegetables | 975,965.3 | 1,005,244.3 |
| Vegetable oil | 1,762,624.8 | 967,401.4 |
| Dairy products | 1,012,985.7 | 967,401.4 |
| Grain mill products, starch and starch products | 1,684,635.2 | 1,431,939.9 |
| Animal feeds | 7,189,811.1 | 7,446,487.4 |
| Sugar | 12,666,271.0 | 12,286,282.9 |
| Instant noodle | 160,052.5 | 160,052.5 |
| **Total** | **27,997,835.6** | **28,162,886.8** |

Source: Information for Industry Indices, Office of Industrial Economy, Ministry of Industry

*Domestic sales*

In 2009, 1.3% growth (+230,00 metric tons) were expected from 2008 from the increase from 17.45 million metric tons (in 2008) to 17.68 million metric tons (in 2009).

1. Food sectors that had marginal increase (1%-5%) in domestic sales are Fish and fish products (1%), Fruit and vegetables(2%), Dairy products (1%), Animal feeds (5.3%) and Instant noodle; meanwhile, Meat and meat products had the largest increase (15%) in domestic sales.
2. Food sectors that had decrease in domestic sale (compared to 2008) were Sugar (-4%) and Grain mill products, starch and starch products (-15%).

| | **Domestic sales (metric tons)** | |
|---|---|---|
| **Sector** | **2008** | **2009** |
| Meat and meat products | 1,168,510.3 | 1,343,901.9 |
| Fish and fish products | 119,923.5 | 121,122.7 |
| Fruit and vegetables | 201,823.6 | 211,914.8 |
| Vegetable oil | 1,235,39.2 | 1,260,101.1 |
| Dairy products | 907,868.8 | 916,947.5 |
| Grain mill products, starch and starch products | 932,563.7 | 839,307.3 |
| Animal feeds | 6,524,691.7 | 6,870,500.4 |
| Sugar | 6,237,691.7 | 5,988,184.0 |
| Instant noodle | 126,283.2 | 130,071.7 |
| **Total** | **17,454,849.7** | **17,682,051.4** |

Source: Information for Industry Indices, Office of Industrial Economy, Ministry of Industry

## *Number of Enterprises*

From the total of 150,637 enterprises reported in 20009, 99.80% of them were SMEs (or 150,329 enterprises). Among the SMEs, 99.42% were small enterprises and only 0.38% was medium enterprises. Grain mill products, starch and starch products (ISIC 1531) were the dominant sector with 60.42% of all the food industry SMEs and the smallest sector was Manufacture of malt liquors and malt (ISIC 1553) which was only 0.01% of the food industry SMEs.

| | Number of enterprise | | | | | Ratio to total number of enterprises (%) | | |
|---|---|---|---|---|---|---|---|---|
| ISIC code | Small | Medium | Large | SMEs | Total | SMEs | Large | Total |
| 1511 | 7,666 | 33 | 24 | 7,699 | 7,723 | 5.13% | 0.02% | 5.13% |
| 1512 | 5,774 | 93 | 54 | 5,867 | 5,921 | 3.93% | 0.04% | 3.93% |
| 1513 | 5,166 | 62 | 30 | 5,228 | 5,258 | 3.49% | 0.02% | 3.49% |
| 1514 | 605 | 36 | 11 | 641 | 652 | 0.43% | 0.01% | 0.43% |
| 1520 | 1,864 | 15 | 16 | 1,879 | 1,895 | 1.26% | 0.01% | 1.26% |
| 1531 | 90,963 | 59 | 11 | 91,022 | 91,033 | 60.43% | 0.01% | 60.43% |
| 1532 | 560 | 45 | 8 | 605 | 613 | 0.41% | 0.01% | 0.41% |
| 1533 | 1,097 | 38 | 21 | 1,135 | 1,156 | 0.77% | 0.01% | 0.77% |
| 1541 | 6,813 | 13 | 9 | 6,826 | 6,835 | 4.54% | 0.01% | 4.54% |
| 1542 | 690 | 22 | 38 | 712 | 750 | 0.50% | 0.03% | 0.50% |
| 1543 | 1,549 | 9 | 3 | 1,558 | 1,561 | 1.04% | 0.00% | 1.04% |
| 1544 | 7,214 | 5 | 7 | 7,219 | 7,226 | 4.80% | 0.00% | 4.80% |
| 1549 | 12,890 | 109 | 39 | 12,999 | 13,038 | 8.66% | 0.03% | 8.66% |
| 1551 | 2,736 | 6 | 17 | 2,742 | 2,759 | 1.83% | 0.01% | 1.83% |
| 1552 | 247 | 1 | - | 248 | 248 | 0.16% | 0.00% | 0.16% |
| 1553 | 10 | 3 | 7 | 13 | 20 | 0.01% | 0.00% | 0.01% |
| 1554 | 3,920 | 16 | 13 | 3,936 | 3,949 | 2.62% | 0.01% | 2.62% |
| Total | 149,764 | 565 | 308 | 150,329 | 150,637 | 100.00% | 0.20% | 100.00% |

Source: National Statistics Office, Department of Business Development, Social Security Office, The Industrial Estate Authority of Thailand, BOI, Bangkok Municipal Office and 75 Provincial Organizations

Data processing: Center of Information and Technology, Office of Small and Medium Enterprise Promotion

## *Employment*

In 2009, Grain mill products, starch and starch product sector (ISIC 1531) employ the most workforce in food industry and it accounted for 18.51% of overall employment in food industry; meanwhile, Distilling, rectifying and blending of spirits; ethyl alcohol production from fermented

materials (ISIC 1551) employed only 0.04% that is the lowest employment among all food industry sectors.

| | Number of employees | | | | | Ratio to total number of enterprises (%) | | |
|---|---|---|---|---|---|---|---|---|
| ISIC code | Small | Medium | Large | SMEs | Total | SMEs | Large | Total |
| 1511 | 28,389 | 6,211 | 42,562 | 34,600 | 77,162 | 3.97% | 4.89% | 8.86% |
| 1512 | 31,537 | 35,907 | 85,164 | 67,444 | 152,608 | 7.75% | 9.78% | 17.53% |
| 1513 | 23,354 | 18,032 | 41,028 | 41,386 | 82,414 | 4.75% | 4.71% | 9.46% |
| 1514 | 3,422 | 3,940 | 5,496 | 7,362 | 12,858 | 0.85% | 0.63% | 1.48% |
| 1520 | 6,414 | 1,904 | 12,406 | 8,318 | 20,724 | 0.96% | 1.42% | 2.38% |
| 1531 | 154,967 | 6,227 | 4,712 | 161,194 | 165,906 | 18.51% | 0.54% | 19.05% |
| 1532 | 3,007 | 6,327 | 4,181 | 9,334 | 13,515 | 1.07% | 0.48% | 1.55% |
| 1533 | 9,311 | 5,576 | 37,450 | 14,887 | 52,337 | 1.71% | 4.30% | 6.01% |
| 1541 | 23,164 | 3,067 | 15,567 | 26,231 | 41,798 | 3.01% | 1.79% | 4.80% |
| 1542 | 2,915 | 2,740 | 20,001 | 5,655 | 25,656 | 0.65% | 2.30% | 2.95% |
| 1543 | 6,046 | 2,043 | 1,045 | 8,089 | 9,134 | 0.93% | 0.12% | 1.05% |
| 1544 | 20,683 | 649 | 4,258 | 21,332 | 25,590 | 2.45% | 0.49% | 2.94% |
| 1549 | 73,759 | 19,030 | 40,181 | 92,789 | 132,970 | 10.66% | 4.61% | 15.27% |
| 1551 | 1,115 | 848 | 7,024 | 1,963 | 8,987 | 0.23% | 0.81% | 1.03% |
| 1552 | 288 | 63 | - | 351 | 351 | 0.04% | 0.00% | 0.04% |
| 1553 | 294 | 444 | 3,616 | 738 | 4,354 | 0.08% | 0.42% | 0.50% |
| 1554 | 12,229 | 2,762 | 29,387 | 14,991 | 44,378 | 1.72% | 3.37% | 5.10% |
| Total | 400,894 | 115,770 | 354,078 | 516,664 | 870,742 | 59.34% | 40.66% | 100.00% |

Source: National Statistics Office, Department of Business Development, Social Security Office, The Industrial Estate Authority of Thailand, BOI, Bangkok Municipal Office and 75 Provincial Organizations

Data processing: Center of Information and Technology, Office of Small and Medium Enterprise Promotion

## *Export*

Thai food products were classified into 4 major groups which are 1) Meat and meat products, 2) Fish and fish products, 3) Fruit and vegetables and 4) Other foods (e.g., rice granulated sugar, palm oil ,tapioca starch, animal feeds, etc.).

In 2009, the Other foods group exported the most with a value of 396,872 million Baht (or 51.78% of food industry's total export value). The main reason was that the Other foods group includes rice and sugar that are two major export food products; meanwhile, Meat and meat products has the lowest export value (8.55% of total).

| Exporting products | Export value (million Baht) | | | | Percentage of export value to total value in 2009 (%) |
|---|---|---|---|---|---|
| | 2006 | 2007 | 2008 | 2009 | |
| Meat and meat products | 37,326 | 41,279 | 59,088 | 65,543 | 8.55% |
| Fish and fish products | 183,138 | 179,141 | 202,960 | 214,883 | 28.04% |
| Fruit and vegetables and | 70,570 | 71,311 | 82,743 | 89,179 | 11.63% |
| Other foods | 272,877 | 325,889 | 460,361 | 396,872 | 51.78% |
| **Total** | 563,911 | 617,620 | 805,152 | 766,477 | 100.00% |

Source: Department of Trade Negotiation, Ministry of Commerce and Food Institute, Ministry of Industry

*Import*

From 2004 to 2005, Fresh, chilled and frozen tuna was the most imported food products with the value of 33,053.60 million Baht (or 15% of all the food import between 2004-2005) among the top 4 import food products which are Fresh, chilled and frozen tuna, oil seed cake, oil seed and milk and dairy products .

| Major imported products | Import value (million Baht) | | Percentage of export value to total value in 2007 (%) |
|---|---|---|---|
| | 2006 | 2007 | |
| Fresh, chilled and frozen tuna | 31,268.20 | 33,053.60 | 15.00% |
| Oil seed cake | 21,501.00 | 24,059.80 | 10.92% |
| Oil seeds | 14,992.80 | 20,245.80 | 9.19% |
| milk and dairy products | 13,190.10 | 16,196.50 | 7.35% |
| **Total** | 201,119.00 | 220,325.70 | 100.00% |

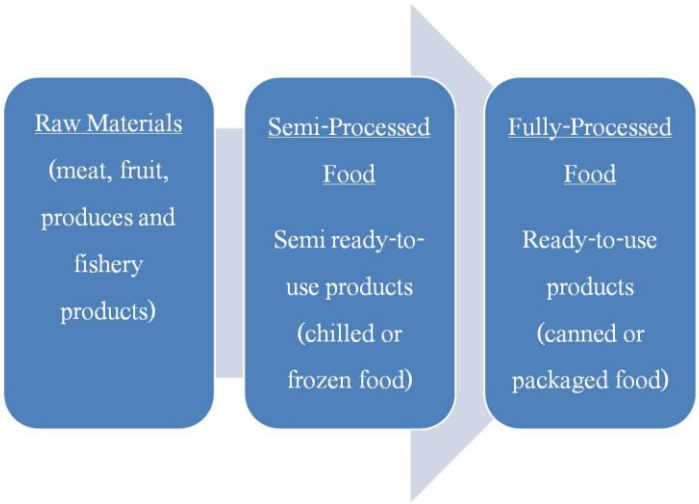
Source: Department of Trade Negotiation, Ministry of Commerce and Food Institute, Ministry of Industry

*Main Conclusions*

- SMEs was the largest contributors to overall number of enterprise in food industry (99.87%)
- 908,851 employees in food industry were employed by SMEs that were more than large enterprises (LEs).
- However, LEs contribute to Gloss National Product (GNP) about 66.8%
- In 2011, total export value was 964,501 million Baht and SMEs contributed 44% of the total value (or 429,010 million Baht)
- From 2007 to 2011, growth rate of food export was ~ 11% per year
- The key factor to the export growth was the expansion of ASEAN market; however, the recession in the US and Euro-zone crisis should be monitored closely

## Supply Chain in Food Industry

- **Raw Materials**: raw materials in food industry were usually domestically produced except certain imported materials
- **Labor and workforce**: food industry employed many employees; however, most of them had low education (high school graduates and below)
- **Technology**: majority of food enterprises utilized basic and fundamental technologies that can be sourced domestically. High technologies were needed to be imported from other countries.

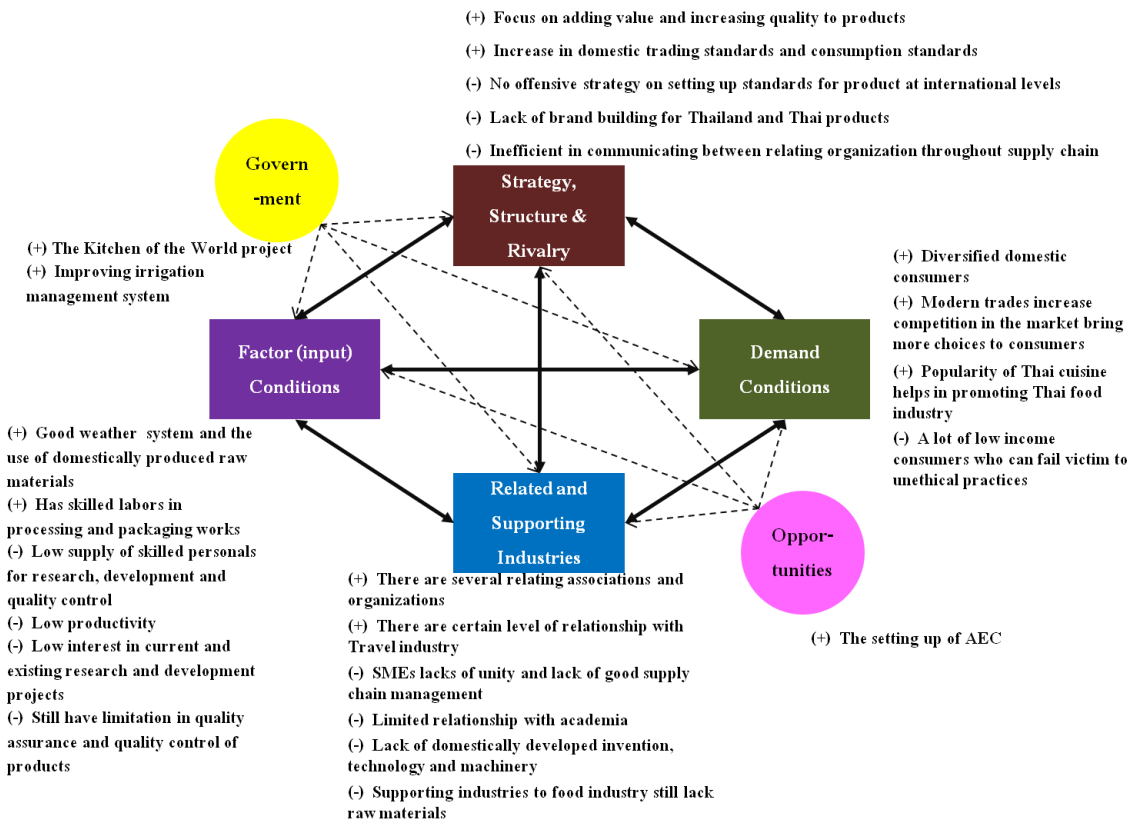



## SWOT Analysis for Food Industry

| | |
|---|---|
| Strength | • Most of raw materials can be domestically sourced<br>• Thai entrepreneurs have experiences in food industry<br>• Thai workforce for food industry are known to be skilled<br>• Food industry is on National Agenda and supported by the government under "Thai Kitchen is the World Kitchen" Project<br>• Thai food factories are standardized through internationally acceptable standards (e.g., GMP, HACCP, ISO and BRC) |
| Weakness | • Still need to import certain raw materials such as tuna<br>• Lack of support in research<br>• Most of enterprises are SMEs and they have many limitations<br>• Labor cost increases<br>• Lack of up-to-date machines and technology to conduct quality control |

| | |
|---|---|
| Opportunity | • The competitors adapt to industrial settings slower than Thai entrepreneurs<br>• There are room to improve the quality of products because majority of consumers are in developed countries who have high buying power and demand high quality products.<br>• Government policy will make supporting food industry more effectively because it is on National Agenda "Kitchen of the World project" |
| Threat | • Many competitors need lower investment<br>• Non-tax barriers increase among many trade partners<br>• New major competitors enter the market especially Vietnam and China |

## *การวิเคราะห์* Diamond Model



## Tax system for SMEs

The table below shows the tax brackets for an enterprises that register and have paid capital investment within the final day of a fiscal cycle less than 5,000,000 Baht.

| Net Profit (Baht) | Tax rate |
|---|---|
| 1 - 150,000 | Excmpt |
| 150,001 - 1,000,000 | 15% |
| 1,000,001 - 3,000,000 | 25% |
| 3,000,001 and more | 30% |

Note

- Tax exemption for a legal person or an enterprise with the first net profit 150,000 Baht is in effect for enterrises, companies, partnerships with fiscal cycle starts wihtin or after January 1st, 2008 (Royal Decree, Issue 471, 2008)
- Enterprises, companies or partnerships generally pay tax for their net profit at 30% tax rate except enterprises that registered in Stock Exchange may pay less than 30%

## Issues in Food Industry

When considering the production side of food industry, there are issues regarding the use of industry standards that is not consistent across the industry (each manufacture has its own standard) and within a manufacture (not good enough quality control and quality assurance program). These issues arise because of the following factors:

- The quality of raw materials are not consistent and meet the standard
- There are not enough and consistent supply of raw materials
- The coordination and management of supply chain between manufacturers and raw material provides are poorly managed; hence, there is the lack of co-quality development between manufacturers and the providers.
- Many enterprises, especially the small ones, lack of knowledge, know-how and technology to improve and increase manufacturing capability and efficiency in order to compete with competitors who have lower capital investment such as Vietnam and China

When considering sales and marketing aspects of the business, many enterprises still lack knowledge, know-how and experience in marketing especially channeling and market penetration in

international market. Foreign markets have many different sets of laws and regulations that ever changing and also different and limited distribution channels.

In addition, Thai entrepreneurs still cannot effectively leverage distinctive and positive characteristics of Thai cuisine to help building brand to compete with others. Moreover, the lack of effective coordination between private sector and government to help solve many issues for the enterprises, for example, inadequate services for quality assessment, law and regulation and expenses for quality certificates or lacking of personal development to supply to the industry, etc.

## SMEs' Targets in Food Industry

Major goods and products that have been exporting continuously with high volume are mainly produced by large enterprises (LEs). Therefore, SMEs should target different markets to differentiate themselves from the LEs such as regional Thai cuisines and food products that have many distinctive identities and marketable characteristics.

Many SMES around Thailand should use many kinds of agricultural raw materials in their production that will alleviate the over supply problems and add values to the agricultural products. In addition, regional Thai cuisines and food products have promising outlook as many of them were proven to provide health benefits that has been one of the world's major trends. In addition, domestic market is expanding due to the expansion of Thailand tourism sector, supports from the governments and many other supporting social factors.

## Laws and Regulations that Affect SMEs

Laws and regulations regarding SMEs can be classified into 3 parts:

1 Laws regarding general business operation that cover SMEs.

2 Laws and regulations regarding the supporting policies for SMEs which are the Act of Parliament to support SMEs issued in 2000

3 Laws and regulations for SMEs which are the 2 cases of the tax benefit grant for SMEs

3.1 Tax benefits through tax calculation which are tax exemption/tax-rate reduction and tax deduction beyond actual spending of the wear and tear value and accelerated depreciation value. Table below shows a tax calculation where SMEs may get tax exemption or tax reduction from their net profits.

| Net profit (Baht) | Taxation rate for fiscal year 2011 (%) | Taxation rate from the fiscal year 2012 to present |
|---|---|---|

| | | |
|---|---|---|
| ≤150,000 | Exempt | Exempt |
| 150,001 - 1,000,000 | 25 | 15 |
| 1,000,001 - 3,000,000 | 25 | 20 or 23 |
| 3,000,001 or more | 30 | |

Note: This taxation rate covers only SMEs whose income for each fiscal year do not exceed 5,000,000 Baht.

Regularly, business operation expenses can be claimed as tax deduction using one of the three classes: 1) deduct as much it has been spent, 2) deduct less than the actual expenses or no deduction, 3) claim tax deduction more than actual expenses. The later is a government supporting policy for SMEs that allows the following expense items to be used for tax deduction beyond 100% of SMEs' actual value/expense. The items are:

- Expenses that can be claimed 125% of its actual value such as Machines, instruments, apparatuses and utilities (installation cost included) that will reduce energy cost
- Expenses that can be claimed 150% of its actual value such as any expenses that support sports according to "Sport Builds Nation" project, a 4-year Strategic Plan (2005-2008) from the government.
- Expenses that can be claimed 200% of its actual value such as training expenses for employees of companies or exhibition expenses when sharing exhibition booth with a legal partnership domestically or internationally.
- Tax benefits Tax benefits through SMEs supporting policies such as supports in capital investment for SMEs or supports in legal entities to co-invest with SMEs. Board of Investment or BOI is major example of this kind of support from the government. BOI creates policies and principles to enhance the investment for SMEs by giving a privilege in tax exemption for importing machineries and manufacturing equipments and income tax for a qualified enterprises for 8 years without any restriction (in term of ratio in the capital investment or region in Thailand).

## Strategies and Action Plan in Supporting SMEs in Food Industry

*Strategy #1: Quality and Standard Development*

Objective: To improve the qualities and product standards of SMEs to international level

Action Plan:

1. Support the improvement of goods/product qualities and standards: This plan sponsored training, workshop and consultancy for SMEs to get international standards' certificate such as GMP and HACCP within the years 2008-2009
2. Develop an inspection system to certify goods/product quality and standards: The goals of this plan was to accelerate the speed, modernize the technology, simplify the accessibility and reduce unnecessary steps within the years 2008-2009
3. Build ally network within supply chain: This plan was to connect raw material producers and manufacturers in food industry to co-develop quality by the end of 2010

*Strategy #2: Adding value in production*

Objective: To increase opportunities to build incomes and competitiveness of SMEs

Action Plan:

1. Support product development: This plan provided knowledge and transfer technology for product development in production and new product development to add more value and competitiveness of the products from SMEs within the years 2008-2009.
2. Support packaging development: This plan provided training regarding packaging aspects of products that covered quality stabilization and attractive packaging design within the years 2008-2009.
3. Develop more food scientists: This plan is to develop curriculum and education within food technology/science curriculum to develop new technologies and modernize production process by the end of 2010.

*Strategy #3: Marketing Development*

Objective: To increase new marketing channels and expand the market for SMEs

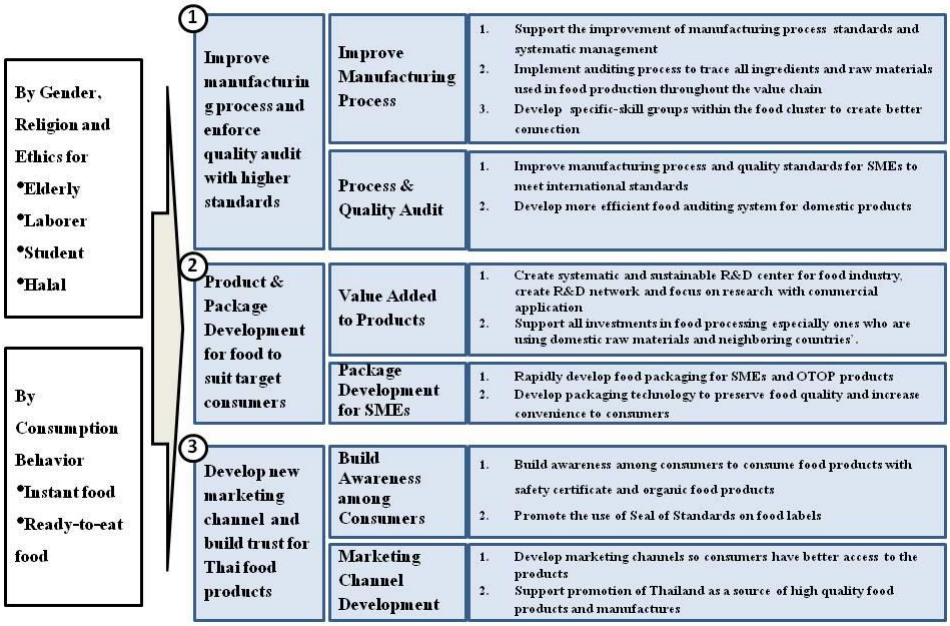
Action Plan:

1. Increase knowledge about marketing: Because majority of SMEs lacked knowledge about marketing, education in marketing is necessary. This plan provided opportunities for SMEs to

participate in seminar, training and workshop about marketing and visit and learn from other successful SMEs from other countries within the years 2008-2009.

2. Thai brand building: This plan educated SMEs in brand building and provide information for brand registration within the year 2010.
3. Create a central website to connect domestic and international customers: This plan created website that provided information regarding enterprises and products and also link to each SME's website within the year 2010.
4. Leverage and support the utilization of new information technologies for SMEs: This plan create forum and training for SMEs who wanted to learn more about new media in information technologies such as accounting audit system, website construction, etc. within the year 2010.
5. Encourage and support the creation of enterprise clusters: This plan encouraged and supported SMEs within each region or product category to connect and build network among each other. The network would provide many benefits such as technology development, marketing, etc. This plan include every sectors such as financial institutions, food institutions and academic institutions to participate in network development within the year 2011.

Thailand Food Industry Development Master Plan (2012 – 2031)



## Important Government Policies and Plans

*Government Policies*

Addressed in 2008, there are many important policies pertaining food industry as the following:

1. Set the measures to solve the issues and development of Thai industry capacity in the future: Food industry was included in these measures that covers the improvement in investment to persuade investors and encourage co-investment with international investors
2. Provide supports for services and connect business service industry and agriculture together
3. Declare that the Southern provides are special districts to support Halal industry and others
4. Support the investment in food products and Halal services including investing in other countries

*Policies and Measures for Importing Raw Materials for Animal Fees (2009)*

The policies and measures covers the reduction or exemption of import tax of raw materials of animal feeds which are soy bean meal, corn and fish meal between 1st January to 31st December 2009.

*Master Plan for Thai Industry 2008-2012*

Master Plan for Thai Industry(2008-2012) determined the strategies for Thai economy to take a great leap forward through the application of technologies and innovation in processing of agricultural products , increase productivity and others. These improvements were conducted along with marketing development and the goals of this master plan was to increase the export value not less than 10% per year. In 2012, the export value increased to 100 trillion Baht and food manufacturers received international certificate of quality in production more than 50% of overall manufacturers.

*Food Safety Policy*

Ministry of Public Healthy created many function to look over food safety issues in order to control, supervise and inspect quality and safety throughout food supply chain by using international standards (SPS) and issued 5 strategic plans below.

1 Develop standards in laws to be internationally acceptable

2 Develop food safety inspection and control

3 Increase consumer potentials

4 Improve personnel and process capabilities

5 Improve laboratory capabilities

## Impact of Trade Agreements between Countries and Food Industry

*Japan – Thailand Economic Partnership Agreement (2007 to present)*

Food industry benefits from this agreement the most as exporting value of agricultural products to Japan increased 24.91%. Also Japan benefited from the reduction through cheaper import goods from agricultural product sector and food industry.

*Thailand-Australia Free Trade Agreement (2005 to present)*

Sea food, processed food and fresh produce sectors benefited from this agreement directly. In addition, other agricultural products that have a hygienic issues that prevents the products from being exported were fixed within 2 years for this agreement. TAFTA created opportunities to Australian market. Consequently, Australia also benefited from exporting dairy products to Thailand.

*Thai-India Free Trade Agreement*

This trade agreement aims to accelerate partial tax reduction (instantly) or it is called Early Harvest Scheme (EHS). This benefited Thailand from 82 items under the EHS that covers important agricultural products and food industry

## Food Industry Trends

From 2008 to 2009, the production capability of Thai food industry increased, but most likely to decline in 2009 because of the recession in the USA, economic crisis in Europe Union and Japan. Moreover, other factors such as SARS virus, reduced consumer spending, natural disasters and nationalism/protective policies (e.g., non-tax barriers issued by other countries to protect their domestic industries from the economic collapse in the US and EU) impact negatively to the export of Thai food products.

On the other hand, JTEPA and other similar trade agreements allowed the export of certain agricultural products to expand (in term of value) and the European market was considering to grant a new round of a tax privilege, GSP that positively impacted on Thai export industries.

## Overall Finance and Financial Facilities of SMEs

Office of Small and Medium Enterprises Promotion (OSMEP) surveyed SMEs about their debts and access to capitals. Through the survey, OSMEP understood the actual financial situations and needs of SMEs and provided supports that were corresponding to the needs of the SMEs.

The survey included not only small and medium enterprises but also included large enterprises as well. It covered trades and services in order to compare the financial capabilities of different sizes of 805 enterprises in the survey. The survey focused on the main sources of capital investment and working capital.

*Sources of capital investment*

Majority of medium enterprises (72%) acquired capital investment through borrowing money from financial institutions; meanwhile, only 26.7% of them used profits from their main operation. Large enterprises (53.3%) borrowed money from financial institutions as their capital investment and 46.7% used profits from their main operation. Different from medium and large enterprises, only 35.7% of small enterprises borrowed money from financial institution as capital investment and 32% used profits from other operation. Also, 31% of small enterprise raised their capital from their family members and friends, 0.45% from their business partners and 0.45% from underground loan.

*Sources of working capital*

Majority of large enterprises (70.5%) used their collective profits as working capital and only 27.3% borrowed from financial institutions. Following this pattern, 64% of medium enterprises used their collective profits for working capital and the other 36% borrowed from financial institutions. As we found in Sources of Capital Investment, small enterprises used diverse sources of money to pay for working capital; however, for working capital, small enterprises resembled large and medium enterprises' pattern. Small enterprises (74.7%) used collective profit as working capital and 21.2% borrowed from financial institutions. Self, family members and friends were considered as their source of money for working capital l(3.6%). Also 0.3% and 0.15% of small enterprises get their working capital from business partners and underground loans, respectively.

*Financing and Hurdles to Get Loans for SMEs*

Enterprises with different sizes differed in term of financial resources. Large enterprises (100%) and medium enterprises (98.68%) borrowed from in-system financial institutions. However, only 63.96% of small enterprises borrowed from in-system financial institutions.

Concerning out-of-system financial loan, large enterprises never borrow from such sources; meanwhile, medium and small enterprises ventured out to get financial support from out-of-system sources. Medium enterprises (27.63%) and small enterprises (18.60%) took loan from out-of-system sources. Among SMEs, only 62.58% were approved for loans by financial institutions and the 37.42% never get their loans approved by the institutions.

From the survey, it was obvious that the financial capabilities of enterprises with different sizes differ greatly especially the ability to access financial capital in the system where large enterprises had more opportunities than the smaller ones especially small enterprises.

Owners of small enterprises believed that the reasons they had limited access to in-system capital are the lack of collaterals, poor business plan and lack of credit history (happens often with brand new enterprises). They expressed that the rules in getting in-system loans were too strict. The issues of small enterprises having difficulties to get loan from in-system sources were the results of the limitations of small enterprises and also the restrictions that the in-system financial institutions imposed. Consequently, when owners of small enterprises wanted to take loans, they considered both in-system and out-of-system sources. The out-of-system sources were considered due to its conveniences (fast and easy to get the loan); meanwhile, the owners of medium and large always considered taking loans from in-system sources. Overall conclusion about debt status and access to financial sources of SMEs was good as the

survey showed that the majority of enterprises had accesses to in-system financial resources, even though, some enterprises (especially small enterprises) were depended on out-of-system financial resources. The dependency on out-of-system resources was not that much.

In conclusion, small enterprises had more hurdles in accessing in-system financial sources compared to that of medium and large enterprises; because, partly, the strict policies employed by in-system financial institutions. The strict policies prevented small enterprises to quality for the loan and, ultimately, could not get the loan from in-system institutions. This issues could be elevated through the supports from the government such as providing helps to reduce the conditions and restrictions of the policies and regulations so that taking out a loan for small enterprises would be more relaxed and more lenient. Consequently, more smaller enterprises could access to the in-system loan.

Another issue in accessing the in-system loans was the capabilities of small enterprises. The survey revealed that the business operation of small enterprises were lacking. Small enterprises did not have good business plan and marketing plan. Also, small enterprises had poor accounting system that sub-standard because of self-operated accounting practice and lacking of accounting historical records. These inadequacies caused the difficulties in getting a loan from in-system institutions. Government could provide support in providing training of such topics (e.g., business operation, business planning and financial planning) to help increase small enterprises' capabilities to access in-system financial resources and also increase their competitiveness due to adequate fund to operate and expand their business and lower cost for financial capitals.