

Chapter 5

Feasibility of Introducing Option Trade by Thai Government

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Chapter 5

Feasibility of Introducing Options Trading by the Government

5.1 Interest of the Thai Government in Developing Options Trading

Options trading transactions could help to mitigate the risk of price fluctuations by setting up future selling or buying prices, called exercise prices. The seller pays a certain amount, or premium, to a buyer to have their option to sell at the exercise price (for example THB 100). This is different from futures, as the seller can sell at the market price if the market price rises above the strike price (for example THB 110) at the point of sale. Options trading has been adopted by several governments for primary goods such as corn in the US to support corn farmers and oil in Mexico, in order to mitigate price fluctuations. In both these cases, the respective governments provided funds from budget to buy premium. Options trading provided an alternative to direct income subsidies, as no direct purchase of goods by the two governments was required, reducing the financial burden on the state.


In discussion with Thai agencies, a number of officials have showed interest in options trading, and notably the Deputy Permanent Secretary from the Ministry of Agriculture and Cooperatives (MOAC) has proposed a joint study into the possibility of applying options trading in NR market.

The official mentioned that RAOT could be assigned as the seller agent for options trading as the organisation has been delegated by the MOAC as responsible for policy implementation related to NR.

However, the financing method for the required funding for options trading is still unclear, so more fine-tuning by policymakers is needed. RAOT may use CESS to buy premium. RAOT's policy implementation funds, including those for the 100,000-ton purchase policy, come from the CESS budget. However, the CESS budget will be used for the replanting project and the 16 projects mentioned earlier in Chapter 4, so ROAT may need to seek finance from state-run financial institutions such as BAAC.

Figure 5-1: Interview with Thailand’s Minister of Agriculture and Cooperatives, Mr Lertviroj Kowattana, Deputy Permanent Secretary

Mr. Lertviroj Kowattana
Deputy Permanent Secretary
of the Agriculture and Cooperatives



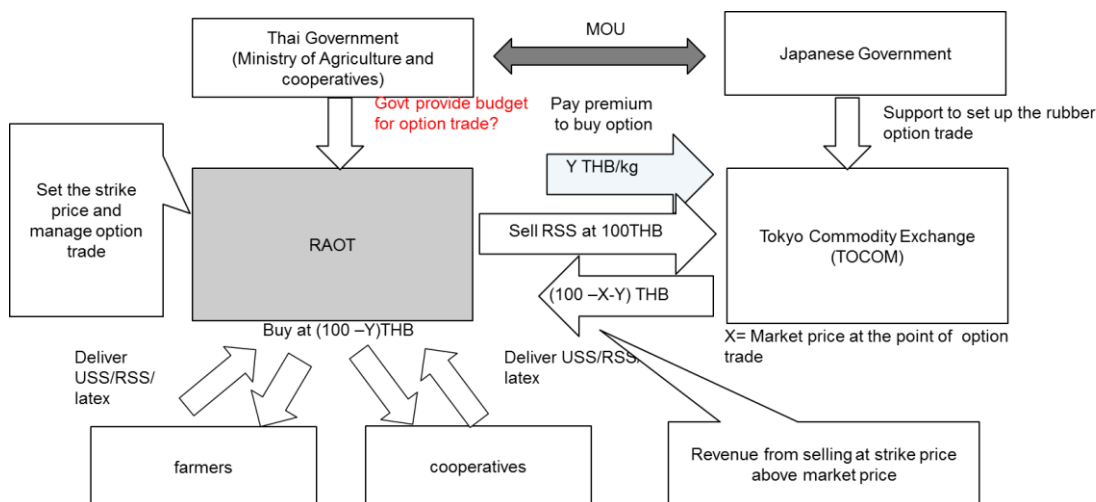
- It is very interesting to use option trade as tool of minimum price compensation, and it is worth to consider. It is welcome if Japan supports the implementation.
- First, how about signing MOU for option trade feasibility study between Japan side and Thailand side (Ministry of Agriculture and Cooperatives)
- In case there is policy proposal from Japan including option trade, MOAC will be window contact while implementing organization will be RAOT.
- In addition, there is also interest in MOU for technological cooperation especially for downstream products.
- When implement option trade, it is high possibility that implementing organization of Thailand side will be RAOT.

Source: Interviewed by NRI.

5.2 Issues Concerning the Introduction of Options Trading

Two of RAOT’s objectives are to stabilise the price of NR and support farmers’ incomes. If options trading supports these objectives, then ROAT could become the main organisation involved. As mentioned, the biggest issue remains the financial source required to pay the premium. The Tokyo Commodity Exchange (TOCOM) stands ready to help set up an options trading system.

Figure 5-2: Options trading (concept)



Source: NRI.