

## SPECIAL BRIEF

September 15, 2011

### *New Thai policy likely to drive up international rice prices, despite good global supply*

#### Key Messages

- On September 10<sup>th</sup>, Thailand's National Rice Policy Committee put in place the mechanisms to reinstate the Rice Mortgage Scheme, also known as the Paddy Pledging Program.
- This new program, under which the Thai government buys rice at above-market prices and hold large rice stocks, is likely to result in a 20 percent increase in international rice prices over the coming three months. In a worst-case scenario, rice prices could rise as much as 50 percent, but this is considered unlikely given increased supplies from other countries.
- Coastal countries in West Africa (other than Nigeria), Central America, Djibouti, Somalia, and Haiti are most vulnerable to this price increase due to a reliance on imports and limited local rice production.

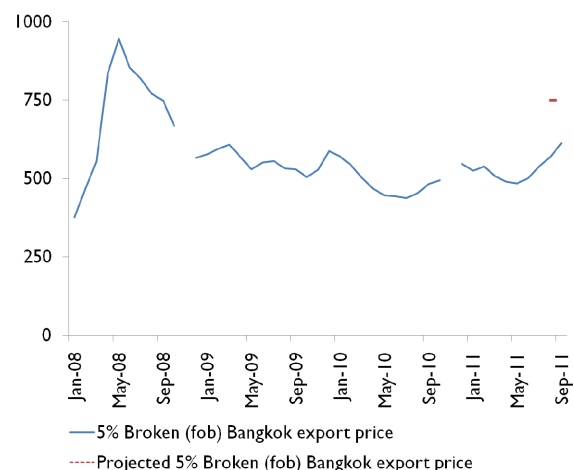
#### Rice Mortgage Scheme

- On September 10th, Thailand's National Rice Policy Committee put in place the mechanisms to reinstate the Rice Mortgage Scheme, also known as the Paddy Pledging Program. To participate, before the harvest, a farmer pledges his rice paddy to the government in exchange for a loan. After harvest, the farmer can turn over his rice as repayment for the loan where it becomes part of government stocks. Alternately, a farmer can sell his rice on the open market to repay the loan with cash. When the pledge price is below the open market price, farmers are likely to sell on the open market, but the government is likely to control rice sales if the open market price remains at or below the pledge price. The program will begin purchasing this season's rice paddy on October 7th.
- Currently, unmilled paddy can be pledged for THB 15,000 per metric ton (USD 505).
- According to press reports, the government is planning to purchase around 10.5 million metric tons (MMT), the equivalent of around 32 percent of world export supply from the last marketing season. This would represent only around 2 percent of world production as rice is thinly traded on the world market. Most supplies are domestically produced and consumed in large, populous Asian countries like China, India, Pakistan, and Indonesia.

#### Potential Price Impacts in International Markets

- Futures markets for rice have been reacting to the Thai government's plans since early August. Options trading on the Chicago Board of Trade showed November deliveries are currently priced around 20 percent higher than in July, despite prospects for a good global rice harvest.
- The pledge price would likely act as a floor price in Thailand's domestic market. The guaranteed price of THB 15,000/MT would imply a wholesale price for export, free on board (FOB) in Bangkok, for the 5 percent broken grade of about USD 750

**Figure 1:** Free on board export prices from Bangkok, Thailand for 5% broken white rice, USD per metric ton (MT), January 2008-present



Note: September 2011 prices are initial, not final averages.  
Source: Food and Agriculture Organization (FAO) and FEWS NET

based on production and processing cost factors. This is about 20 percent higher than the price of early September (Figure 1).

- Estimates of international rice price increases by some trade groups range as high as a 50 percent, but FEWS NET analysis and analysis by a variety of other groups suggest that an increase of this magnitude is a worst case scenario, given that prices in international markets will likely be tempered by better supplies from other countries, especially India, along with the existence of large stocks in exporting countries.
- The U.S. rice harvest was considered poor since it is estimated to be 13 lower than last season, but it is less than 1 percent below the five-year average. Exports will probably decline around 5 percent according to U.S. Department of Agriculture estimates.
- Worldwide rice production is expected to set a new record this year. Stocks held should be at a nine-year high by the end of the year. Trade is expected to grow in volume. Stocks are also very high among the largest exporters (International Grains Council). Such strong market fundamentals of good new supply, growing trade, and a slight increase in stocks held should temper price rises.
- Large precautionary purchases by major importers in reaction to the new Thai policy or new trade barriers could prevent the market fundamentals from prevailing and cause larger rises.

### Implications for Supply and Food Security

- While the scheme will probably drive up the price of Thai rice, other exporters may be able to gain market share. However, stocks and supplies from all countries may be priced higher than they are right now as Thailand makes up around a third of the world export market supply in a typical year. India has recently announced they will be selling white rice in addition to long grain basmati on the open market. India's stocks may be over 20 MMT. Pakistan typically sells much of the rice that enters East Africa, and Pakistan and India both typically export between 2 and 4 MMT per year. While the U.S. has had poor production this year, Brazil and other South American producers had a good year, so they may help fill some of the gap, especially in the parboiled rice markets and in West Africa and the Caribbean. However, Brazil and Argentina both typically export less than 1 MMT each annually.
- Importing countries that only import from Thailand or the United States are the most likely to see price increases. Haiti has a particularly undiversified dependence on imported rice from the United States.
- Countries where the poor are large consumers of imported rice are most at risk of experiencing increased food insecurity if international rice prices rise. Coastal countries of West Africa where rice consumption among poor households is high, and where dependence on rice imports is heavy, are exposed to a potential rise in rice prices. This includes Senegal, Guinea Bissau, Guinea, Sierra Leone, and Liberia. Mauritania, the Gambia, and Côte d'Ivoire are also exposed, though to a lesser extent, as households consume smaller quantities of rice. In Mali, rice consumption is high, but the country produces large quantities of this commodity. Within these West African countries, the populations in large urban centers are the most exposed to rises in rice prices. In 2008, when rice prices rose steeply, poor urban households' access to food eroded significantly, particularly in Liberia, Sierra Leone, Senegal, and Guinea.
- In East Africa, Djibouti and Somalia will probably see some price transmission though in Djibouti government price policy may help contain the rise in price. Somalia is highly exposed, in a context where households face very high prices for local cereals and thus higher demand for rice. Tanzania and Mozambique will see some pressure, especially in urban areas on the coast, but domestic production will help limit this and delay the transmission of prices. As, rice is a secondary staple food in comparison to maize and beans, substitution may also help contain the price rise
- Haiti is heavily reliant on imported rice from the United States and rice represents a large share of the dietary intake of poor urban households. Haiti is very exposed to increasing rice prices. Prices have already started to rise in Haiti. In Central America, in the context of high prices for maize, an increase in rice prices may put further upward pressure on maize prices, further constraining access to food primarily in urban areas.
- A hike in rice prices would have a mild impact of food prices in Central Asia as these countries rely much more on wheat produced in the region and are not as exposed to a rise in rice prices.