

RICE CRISIS: REAPING WHAT GOVERNMENT SOW

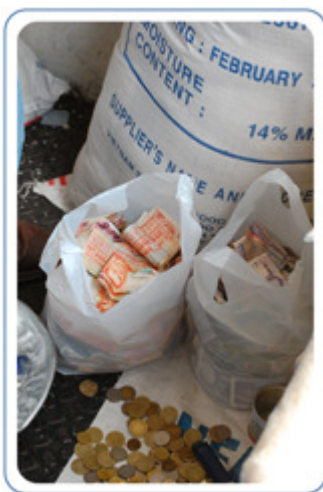


Scenes of long queues to buy three kilos of subsidized NFA rice (P18.25/kilo) abound in Metro Manila and in the provinces. This is reminiscent of the 1995 rice crisis when prices of the staple doubled up and in 1973 when the people experienced rice rationing and ate mixed rice and corn for their meals.

Is there a rice crisis?

The government says that there is no rice shortage as the country has ample supply of the main staple. However, tightening global rice supplies and the decision of major rice exporting countries to cut their rice exports (India, Egypt and Vietnam) or ban rice exports (China and Cambodia) do not augur well for the Philippines, now the world's top rice importer. With only 90-92 % self-sufficiency rate, the Philippines has no choice but to import to cover the shortfall in rice production and to ensure enough buffer stocks especially in the lean months of July to September.

Tight Supplies and Rising World Rice Prices



Local rice prices had gone up alarmingly from P20-22/kilo to P35 a kilo. Soaring rice prices coupled with rising prices of pan-de-sal, noodles and other wheat and food products is not a good prospect especially for the poor. This situation translates to less food on the table for the country's poor and the alarming part is, it may not improve anytime soon.

Why are prices going up?

Tight supplies and export restrictions are driving rice prices extremely high. The USDA's *Rice Outlook* (April 2008) reports that the 2008 global

rice trade will decline by 9 percent. Global rice trade is projected at 27.5 million tons (milled basis) for CY2008, 2.8 million tons below the 2007 revised record.

On the export side, Vietnam reduced its 2008 export forecast by 1 million tons and banned new sales until June. India cut its exports by 500,000 tons and banned the new sales of non-basmati rice. Cambodia and Egypt also lowered the rice exports, the latter banning new sales until October (USDA, 2008).

International rice prices are now extremely high, with Thailand's price quotes and U.S. milled prices the highest on record (see Table 1). Thailand's prices have more than doubled since late January driven by tight supplies (due to export restrictions), strong demand from importers like the Philippines (even with high prices) and a stronger Thai baht. The USDA's *Rice Outlook* reports that a record \$855 per ton (for the week ending April 10), up by \$315 per ton (in the week ending March 10) for Thailand's high quality, 100-percent Grade B (FOB, Bangkok). Thailand's premium jasmine rice now cost over \$1,000 per ton, up by more than \$200 from March 2008 price. Vietnam's price quotes (nominal) are up, from \$500 (early March) to \$700-750 per ton for its top-quality 5-percent broken grains.

Table 1: U.S., Thailand and Vietnam Price Quotes (\$/metric ton)

Month or Market Year 1/	UNITED STATES			THAILAND 5/					VIETNAM 7/
	Southern long grain milled 2/	Southern long grain rough 3/	California medium grain milled 4/	100% Grade B	5% parboiled	15% Broken	35% Broken	A.1 Super 6/	
2001/02	207	107	285	192	198	178	164	146	187
2002/03	223	123	327	199	195	186	175	151	184
2003/04	360	206	533	220	222	207	199	184	212
2004/05	312	176	405	278	278	265	252	219	255
2005/06	334	192	484	301	293	284	266	216	259
2006/07	407	237	538	320	317	302	282	243	292
Dec. 2007	496	302	584	368	380	353	347	334	NQ
Jan. 2008	518	315	590	387	397	371	349	362	390
Feb. 2008	565	353	595	474	484	NQ	NQ	434	467
Mar. 2008	664	413	595	615	580	NQ	NQ	538	615
April	761	443	678	855	NQ	NQ	NQ	700	725

2008									
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NQ – No quotes. 1/Simple average of weekly quotes. 2/ Number 2, 4-percent broken, sacked, free alongside vessels, U.S. Gulf port. To convert to a free on board vessel price add \$15 per ton. 3/ Bulk, free on board vessel, New Orleans, L.A. 4/ Number 1, maximum 4-percent broken, package quality for domestic sales, sack free on board truck, California mill, low end of reported price range. 5/ Nominal price quotes, long-grain, sacked, free on board vessel, Bangkok, Thailand. 6/ 100-percent broken, new price series. 7/ Long grain, double water-polished, bagged free on board vessel, Ho Chi Minh City. January-March 2008 quotes new crops only.

Source: USDA, 10 April 2008

Perennial Shortfall in Domestic Production

Rice in the Philippines is cultivated in 2.7 million hectares or 30 percent of the country's total arable land. In 2007, the crop is harvested from some 4.273 million hectares, where 2.9 million hectares are irrigated (BAS, January 2008).

Rice production has been growing over the years, except in 1998 because of prolonged drought (El Nino phenomenon). Rice production in 1994 was 6.892 million metric tons and grew to more than 10 million metric tons in 2006 (Table 2). In 2007, rice production rose to about 10.556 million metric tons.¹

Table 2: Rice Supply and Utilization Accounts (in thousand metric tons)

Year	SUPPLY				UTILIZATION					
	Beginning Stocks	Production	Imports	Gross Supply	Exports	Seeds	Feeds & Waste	Processing	Ending Stocks	Net F Dispos
1994	1,444	6,892	-	8,336	-	179	448	276	1,498	5,935
1995	1,496	6,694	264	8,656	-	164	446	276	1,422	6,326
1996	1,422	7,379	867	9,668	-	194	480	295	1,793	6,906
1997	1,793	7,370	722	9,885	-	188	479	295	1,979	6,944
1998	1,979	5,595	2,171	9,745	a/	155	364	224	2,279	6,723
1999	2,279	7,708	834	10,821	a/	196	501	308	2,365	7,451
2000	2,365	8,103	639	11,107	a/	198	527	324	2,166	7,892
2001	2,166	8,472	808	11,446	a/	199	551	339	2,271	8,086
2002	2,271	8,679	1,196	12,146	a/	198	564	347	2,448	8,589
2003	2,448	8,829	886	12,163	a/	196	574	353	2,362	8,677
2004	2,362	9,481	1,001	12,844	a/	202	616	379	2,051	9,596
2005	2,051	9,550	1,822	13,423	a/	200	621	382	2,094	10,126
2006	2,094	10,024	1,715	13,833	a/	204	652	401	2,253	10,323
2007										

Note: a/ less than 1 thousand metric ton
Statistics, 2006-2007

Source: Bureau of Agricultural

¹ BAS reported that palay production for January – December 2007 was 16.240 million MT. At 65% recovery, rice production is about 10.556 million MT.

Notwithstanding the steady increase in production, the Philippines remained a net importer of rice, as reflected by the figures in the past decade. In 1985, the Philippines imported 538,000 metric tons and 621,000 metric tons in 1990. There were no importation in 1987, 1991, 1992 and 1994 but the country resorted again to rice importation in 1995. The highest volume of imports was registered in 1998 at 2.17 million metric tons and 2005 at 1.8 million metric tons. In 2006, the country imported 1.622 million metric tons from Vietnam, Thailand, Pakistan, China and the United States.

The Philippine government plans to import up to 2.1 million tons of rice for this year in what could be the biggest importation of the national staple in a decade. Agriculture Secretary Arthur Yap said the government is going to buy 1.8 million tons to 2.1 million tons of rice for 2008, up from an earlier 1.6-1.8 million tons as it tries to secure supplies amid soaring prices.

Why are we not sufficient in rice?

Low productivity, rapid rise in population, high production costs and losses, inappropriate programs and insufficient government support are the major reasons why we are not producing enough to feed our people.

While there has been an increase in rice yield, from 2.93 metric tons/hectare to 3.48 hectare in 2005, it is still low compared to Vietnam rice yield of 4.88 MT/ha and U.S. yield of 7.4 MT/ha. While Thailand has lower rice yield, it has more than 10 million hectares devoted to rice production in 2005. The United States allotted only 1.3 million hectares to rice production but it has high productivity.

Rice productivity in the Philippines remains low at 4.07 tons per hectare in 2007 due to several factors. The costs of production, especially farm inputs are generally high, aggravated by uncertainties in production (insect pests, diseases, typhoons and drought), low or fluctuating prices of *palay* (un-husked rice), land conversions (from agriculture to non-agriculture uses), crop conversions (from palay production to other crops' production) and inaccessible credit facilities.

With more mouths to feed annually, rice production could not cope up with demand. The country's population has more than doubled since the first high-yielding rice varieties were released by the International Rice Research Institute (IRRI) in the mid 1960s. The population then was 32.7 million. It soared to 48 million in 1980, and further to 60 million in 1990 and reaching up to 75.3 million by mid-2000. Given a 2.36-percent population increase every year, three Filipinos are born every minute, 193 in an hour, 4,624 in a day, and 1.7 million in a year. The current population is already more than 88 million and may reach more than 94 million by 2010.

Post harvest facilities also contributed to not attaining rice self-sufficiency. The United Nations' Food and Agriculture Organization (FAO) revealed the Philippines exhibited no growth in irrigated lands as compared to its neighbors in Southeast Asia.

Much has been written about the NFA's inability to influence market prices. Its market intervention strategy of "buy high and sell low" is not at all effective nor appropriate. Given its limited funds, it could only procure miniscule volume of domestic palay at less than 1 percent of the total production. It has been incurring huge losses at the expense of taxpayers money by selling low-priced rice at P18.25 / kilo. (For in-depth discussions on the NFA, go to <http://www.mode.org/Articles/pdf/State%20intervention%20and%20private%20sector%20participation%20in%20philippine%20rice%20market.pdf> and http://r1phils.org/PDF%20Files/State_Intervention/3RoleofState.pdf)

Appropriate State Intervention is the Key

Strong public sector intervention by top rice producing countries is the key to attain higher rice output. This is among the findings of a multi-country study on public sector intervention on the rice sector (http://r1phils.org/PDF%20Files/State_Intervention/2AttainingRiceSS.pdf). A variety of interventions had been employed such as improved or high yielding varieties, massive use of other inputs, infrastructure support (irrigation and post harvest facilities), price subsidies, provision of credit and other policies. What is needed is a coherent Rice Master Plan with adequate budget that is suited to the specific needs of the country complemented by a rational National Land Use Policy, a legislative proposal that has been languishing in Congress in decades.

These prescriptions are nothing new. The question is – Does the Arroyo government have the will to undertake the necessary and appropriate interventions to attain rice self-sufficiency?

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