The WTO and International Trade Prospects

Rice

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1. World Rice Market Basics

2. California Rice Industry Basics

3. What have been the benefits from the WTO for California Rice Industry?

4. What potential benefits exist from new Developments?
World Rice Market Basics

• About 90% of the World’s Rice is Produced in Asia

• Over ½ in a band from Pakistan, South and East through the Philippines

• Highly dependent on the timing of the Asian monsoon

• Most is consumed where it is produced
World Rice Market Basics

“The Global Rice Export Market is Highly Concentrated”

- Thailand: 30%
- Vietnam: 18%
- United States: 12%
- India: 4%
- China: 8%
- Pakistan: 10%
- Other: 18%

Share 2001 Exports
23.3 million tons
World Rice Market Basics

“Rice Import Market Less Concentrated, but Segmented”
World Rice Market Basics

“The International Market is Thin”

![Bar graph showing percent of production traded for various crops](image)

- Rice: 6%
- Wheat: 18%
- Soybeans: 25%
- Corn: 13%

Percent of Production Traded
World Rice Market Basics

Government Policies Also Add to World Price Variability

• Developing Asian countries: adequate rice supplies at low prices for consumers

• Higher income Asian countries: (Japan, Taiwan, and South Korea), protect producers from lower priced imports

• Impact of State Trading Enterprises to accomplish goals

Shift price adjustment to world markets
World Rice Market Basics

The small amount of rice traded, relative to the amount produced, provides potential for highly variable world prices resulting primarily from shifts in exportable supplies in the major exporting countries and/or domestic production shortfalls in large consuming countries.
World Rice Market Basics

“The Rice Market is Segmented by Type”

- **Japonica**
  - About 10%
- **Aromatic**
  - About 10%
- **Glutinous**
  - Remainder
- **Indica**
  - About 75%

Share of Global Rice Trade
World Rice Market Basics

“The Rice Market is Segmented by Form”

1. Milled
2. Brown
3. Rough
World Rice Market Basics

“The Rice Market is Segmented by Quality”

1. High Quality: U.S., EU, Australia, Egypt
   Thailand, China, Argentina and Uruguay
   Basmati from India and Pakistan

2. Medium Quality: Thailand, Vietnam, India Parboiled

3. Low Quality: Thailand, Vietnam, China, India and Pakistan
California Rice Industry Basics

- Over 90% of Production Medium Grain (Japonica)
  Around 65% of US Total (Arkansas, Louisiana, Mo, TX)
- About 70% Domestic Use - 30% Exports
- Domestic Use: Food Use (direct consumption and processing)
  Accounts for about 75%
  Use in beer accounts for about 16%
- Domestic Use has increased substantially in past 20 years
  With outlook for stable to modestly increasing (2-2.5%)
## California’s Rice Industry Basics

### We are in World Market for Japonica *

<table>
<thead>
<tr>
<th>Major Competitors</th>
<th>Major Customers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Northern China</td>
<td>Japan</td>
</tr>
<tr>
<td>Egypt</td>
<td>Turkey</td>
</tr>
<tr>
<td>Australia</td>
<td>South Korea</td>
</tr>
<tr>
<td>Italy</td>
<td>95-83%</td>
</tr>
</tbody>
</table>

- At least for this discussion, not to discount importance of production of other varieties

World Trade Volume: 1.5-2.5 million tons
WTO Impacts on Japonica Rice Market

Uruguay Round Effects

Most Significant for Trade

• Special Rice Clause: Resulting in the Partial Opening of Japanese and South Korean Markets

Little or No Significance for Trade

• Disciplines on internal support
  • Export subsidy disciplines

Long-run Implications for Trade

• SPS rules and regulations (Liberty Link, Golden rice)
WTO Impacts on Japonica Rice Market

WTO Changes to Japanese Rice Policy

- Open domestic market to imports: 4% of base period consumption in 1995 (1986-88) rising to 8% by 2000.

Base Period Consumption: 9,475,000 mts.
- 1995 Import Access: 379,000
- 2000 Import Access: 758,000

But
WTO Impacts on Japonica Rice Market

WTO Changes to Japanese Rice Policy

- Japan implemented rice tariffication on April 1, 1999
  Above minimum access imports subject to 341 yen per kilogram duty
  Imports increasing by only 0.4% per year up to 7.2% in 2000

JFY Minimum Access
  Previous Regime: 758,000
  With Tariffication: 682,000

Still highly significant relative to pre-UR closed market
WTO Impacts on Japonica Rice Market

WTO Changes to South Korean Rice Policy

• Open domestic market to imports, 1 to 2% of base period consumption years 1-5; rising to 4% by end of 10 year implementation period.

  1995/96 Import Access:  51,000 mts
  2004/05 Import Access:  205,000 mts

But
Since 1995, China has dominated Korean rice winning nearly all government controlled rice tenders. MMA imports filled with low quality rice disbursed for non-direct consumption.
California Rice Industry Gains

• U.S. share of Japanese imports substantial (virtually all from California)

<table>
<thead>
<tr>
<th>Year</th>
<th>Share</th>
<th>Quantity</th>
</tr>
</thead>
<tbody>
<tr>
<td>JFY 1995</td>
<td>47.4%</td>
<td>193,715</td>
</tr>
<tr>
<td>JFY 1996</td>
<td>46.2%</td>
<td>215,134</td>
</tr>
<tr>
<td>JFY 1997</td>
<td>50.1%</td>
<td>272,557</td>
</tr>
<tr>
<td>JFY 1998</td>
<td>47.7%</td>
<td>301,898</td>
</tr>
<tr>
<td>JFY 1999</td>
<td>47.9%</td>
<td>312,826</td>
</tr>
<tr>
<td>JFY 2000</td>
<td>48.3%</td>
<td>330,273</td>
</tr>
</tbody>
</table>

• Over 50% of California total exports (418,000 – 576,000 mts. milled)

• Politics, not competitiveness, may underpin market share

• Problems: exchange rates; SBS vs. OMA imports
California Rice Industry Gains

Recent Sales in South Korea

November 15,000 mts. #1 grade medium @ $278.75 CIP*
December 22,250 mts. #3 grade short @ $250.00

Promising: Out of 142,520 ton market 26%

* Carriage and Insurance Paid to onboard truck
California Rice Industry Gains

Empirical Assessment

• Difficult with limited observations 5/6 years

• Consensus projections suggest long-run 7% increase in prices above model baseline prices

• Positive effects for California rice prices relative to others from additional imports by Japan

• Time will tell
U.S. Medium/Short Grain Exports
Million Cwt. Rough Equivalent
Potential California Rice Industry Gains

Accession of China and Taiwan

China: December 11
2.66 mil mt rising to 5.32 million 2004
½ Japonica
Unlikely TRQ will be even close to full
Little if any U.S. imports

Taiwan: Jan 1
144,720 mt market
May be substantial U.S. imports of Japonica
Perhaps 50%

Further increases in Market Access Opportunities?

Korea, for example, has said rice is off the table
Potential California Rice Industry Gains

Problems Remain for Trade

• Combat over Food Aid and Export Credits
  About 20% of Total Rice Exports and Declining
  •
  • Turkey – import duties, quantitative import controls and seasonal import bans

• Competition from subsidized production

• Sanctions reform: Iran, Iraq, Cuba

• Markets like Jordan are small, limited growth and increasing competition

• What mischief will become of Global Rice Pool?

Domestic Issue May Plague Profitability

Power, Water, Environment, Yield Variability, Farm Program Benefits