2011 CTPECC AGRICULTURAL AND FOOD POLICY FORUM

MOVING BEYOND MARKET VOLATILITY TO
FOSTER FOOD SECURITY

The 2008 Rice Policy Reaction

Exacerbating the Problem?

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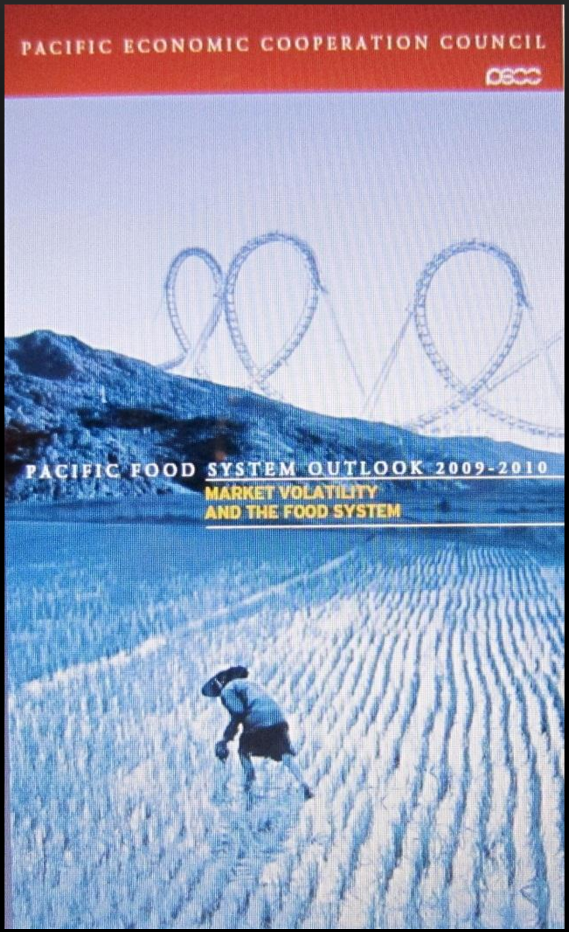


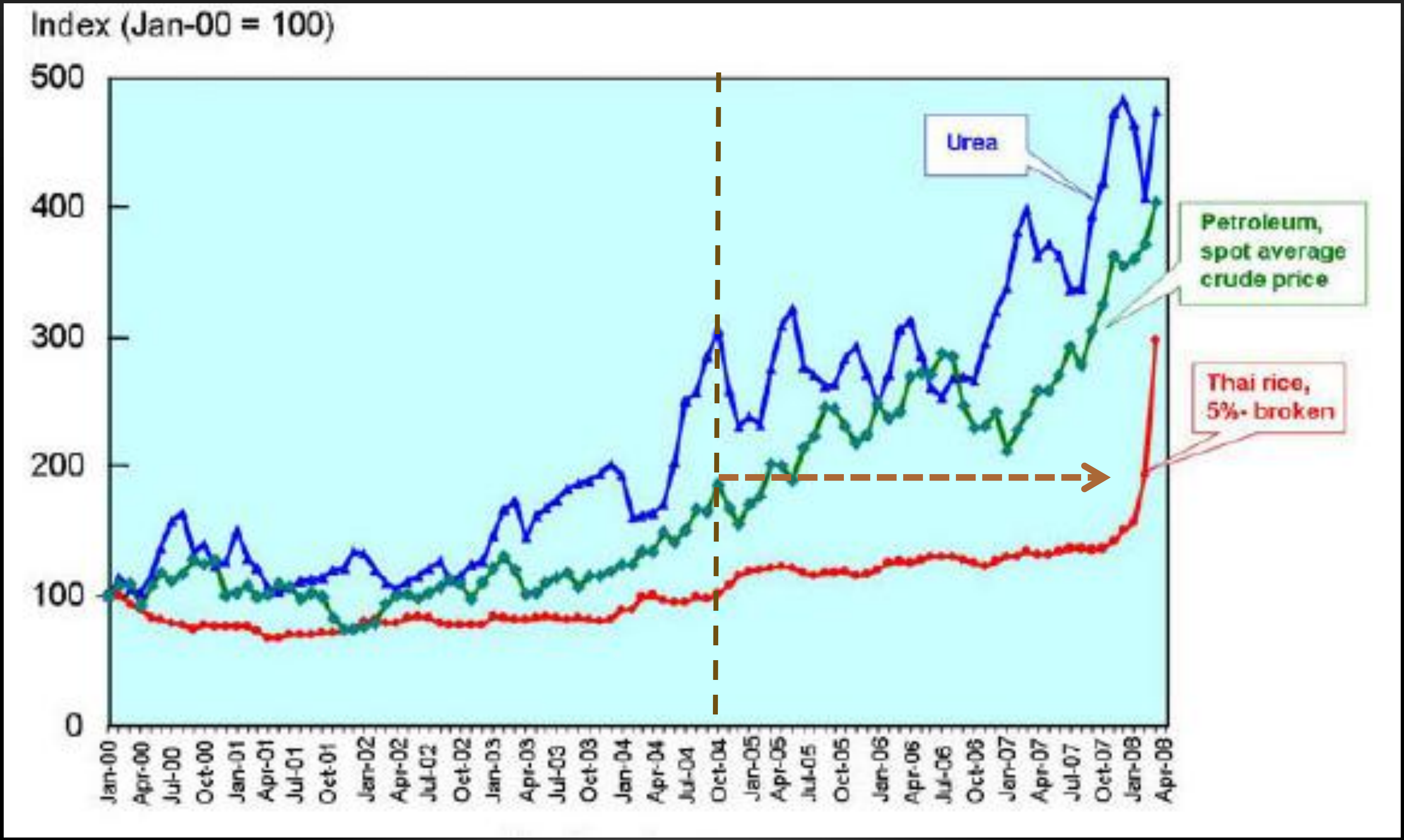
A New Era of Volatility?

Roller Coaster Prices: The Upswing

"Food commodity prices were the most volatile in 2005-09 of any time in the past three decades …. and real agricultural prices increased in the 2000s, as they became more closely linked to non-agricultural commodity and energy prices".

"An important lesson from the volatility in the 2007-08 rice market is that policy interventions, when unchecked, can be more disruptive than economic events".

World prices of rice, urea and diesel fuel, 2000-2008.



Source: Pinksheet, The World Bank, various issues as cited in IRRI (2008)

The Case of the Rice Sector of the Philippines

1 rice importing country in the world (2006-2008)

COUNTRY	2006	2007	2008
Philippines	1,700,340	1,793,960	2,426,630
Iraq	1,147,270	735,810	694,215
Islamic Republic of Iran	1,114,400	934,614	1,125,050
Nigeria	963,140	985,770	
Saudi Arabia	914,406	924,713	926,281
South Africa	775,464	943,347	626,429
United Arab Emirates	763,979	1,010,570	1,278,230

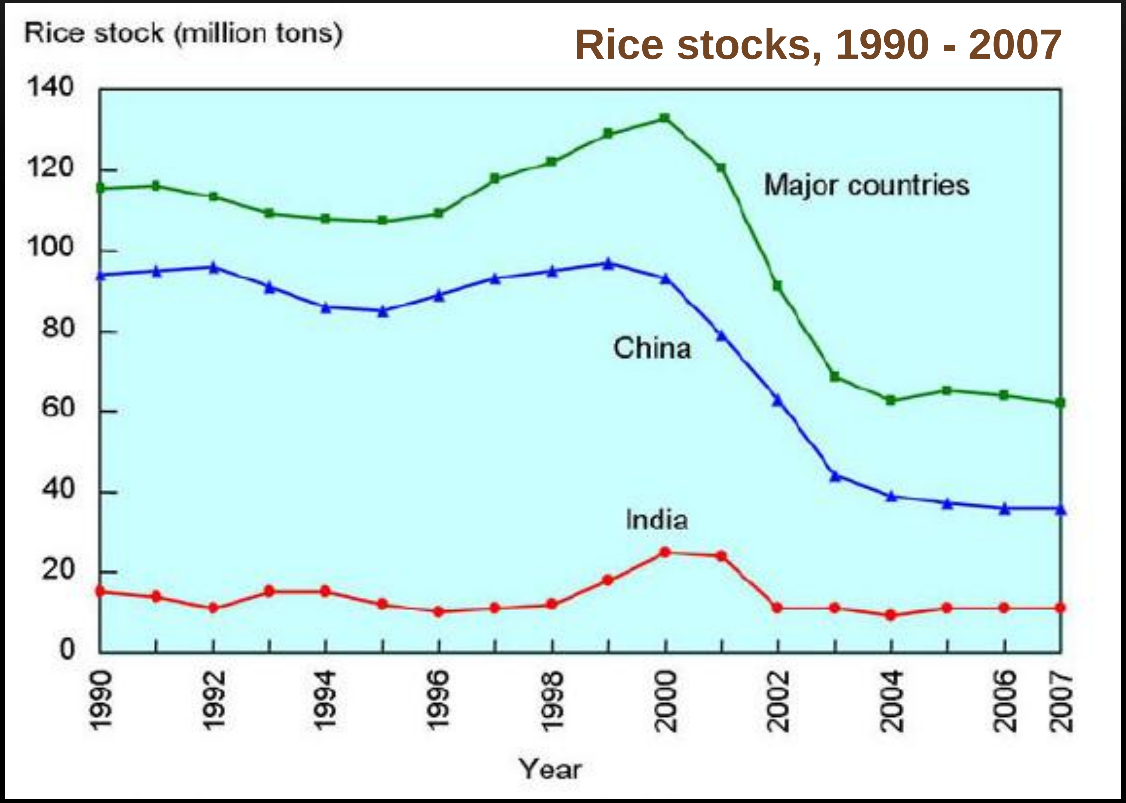
Other Asian countries

COUNTRY	2006	2007	2008
Indonesia		1,001,430	
Malaysia	605,095	600,138	883,111
Bangladeh		572,252	781,168
China	691,991	500,393	322,863

Complexity and Risks in Outsourcing Rice

Demand exceeds Supply

- **consumption is greater than production**
- **reduction in the rice stockpiles**
- **increase the risk of a sharp rise in price**



Source: PSD Online, USDA, 2008 as cited in IRRI (2008)

Rice area (columns) and yield (lines) in Asia, 1990-2007.

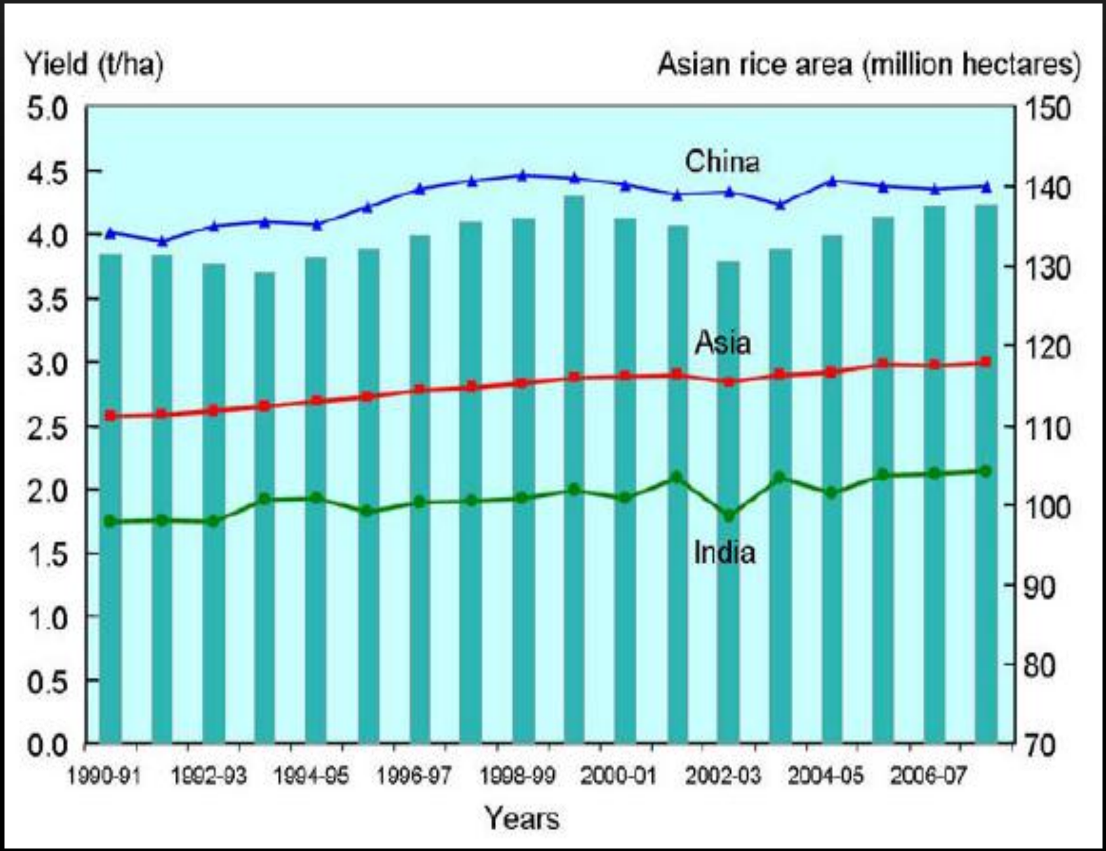
Slowing growth in yield

- South Asia
  1970 – 1990 = 2.14%
  1990 – 2005 = 1.40%

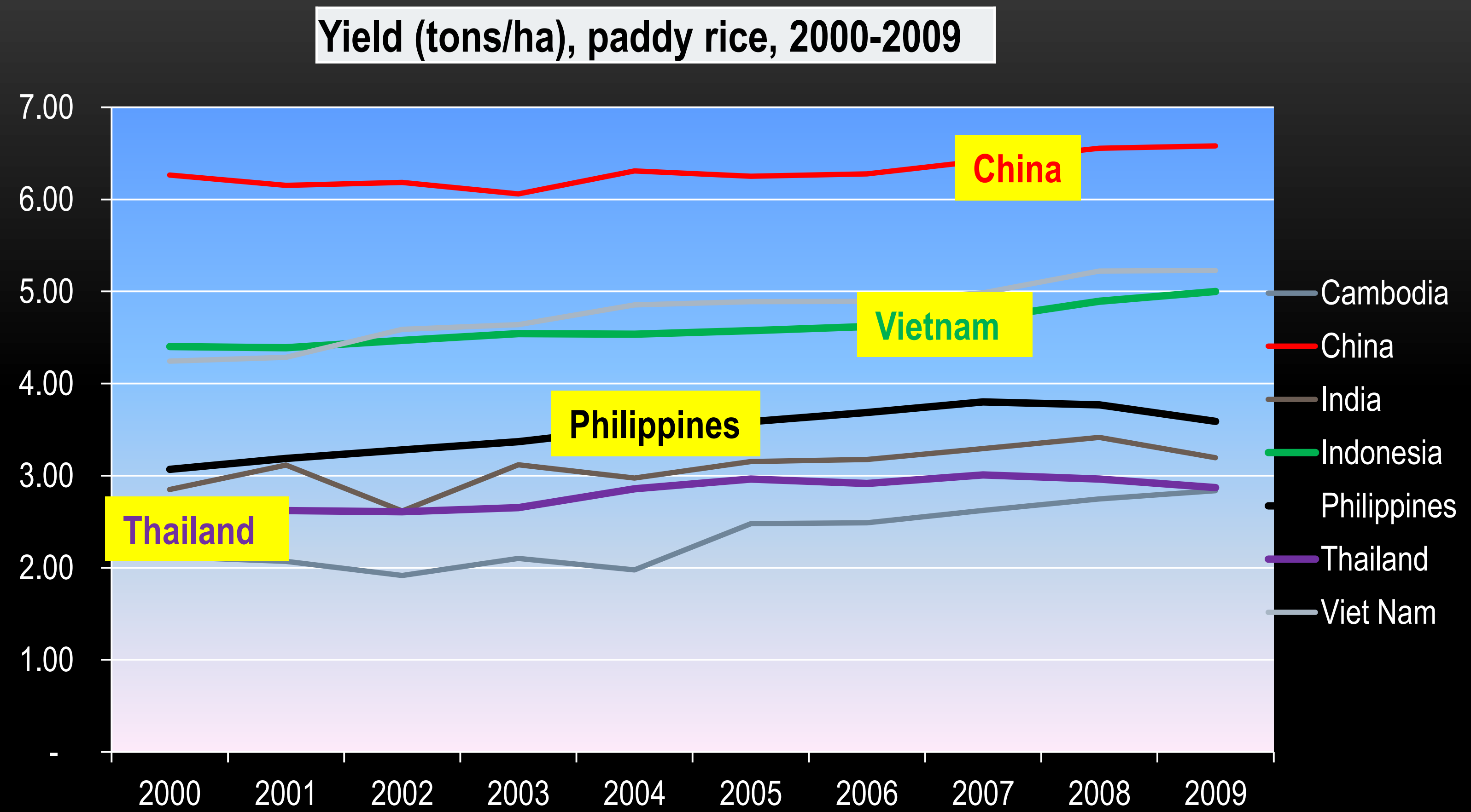
- Southeast Asia
  decreased similarly

- Major rice-growing countries of Asia
  has been almost nil during the past 5-6 yrs

- Globally, yields have risen
  by less than 1% per year in recent years



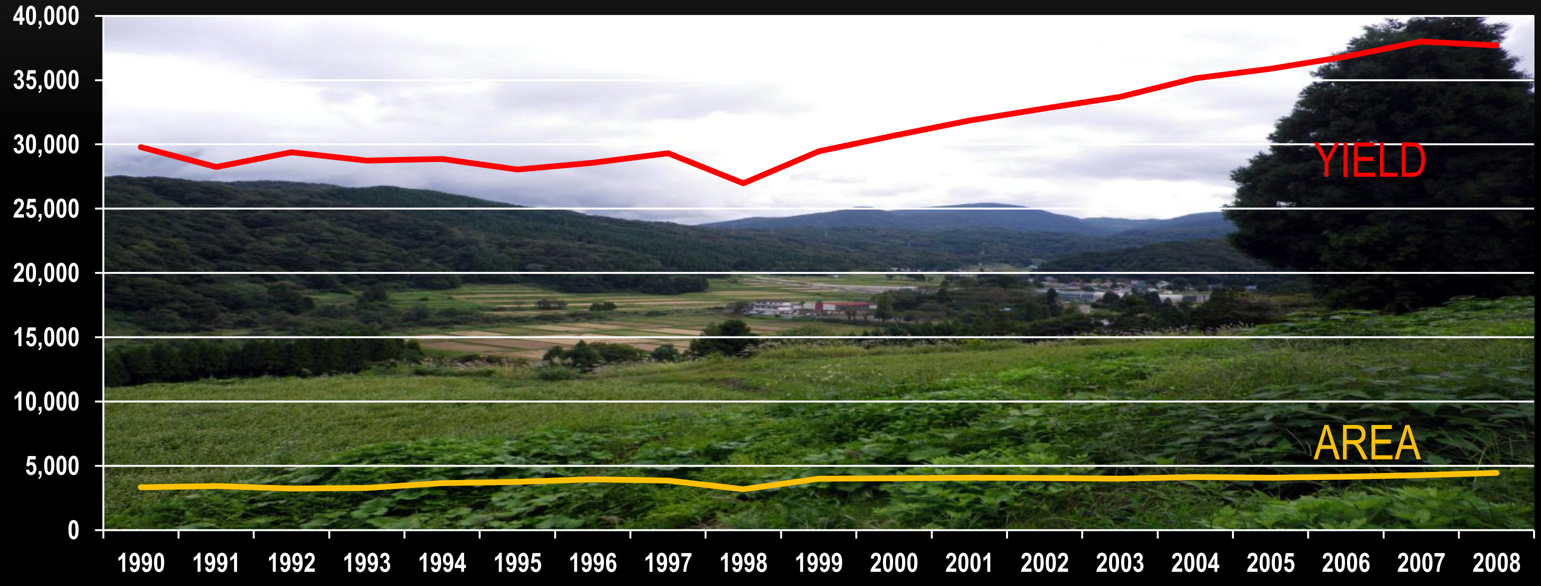
Source: USDA, 1990-2007 as cited in IRRI (2008)



Yield improvements were not as pronounced as targeted growth levels

Philippines, almost flat at less than 1% a year; in 2001-2009, yield performance accelerated to 1.8% but still low to meet demand

Area (in ‘000 hectares) and yield (in hectograms), Philippines, 1990-2008.



PERIOD	YIELD	AREA
1990-2000	0.41	2.53
2001-2008	2.62	1.27
1990-2008	1.39	1.97

1 kilogram = 10 hectograms

PHILIPPINES: The Case of Rice

Consumption has outstripped production

Population

1992 = 65.34M

2008 = 90.46M . . . . still high population growth

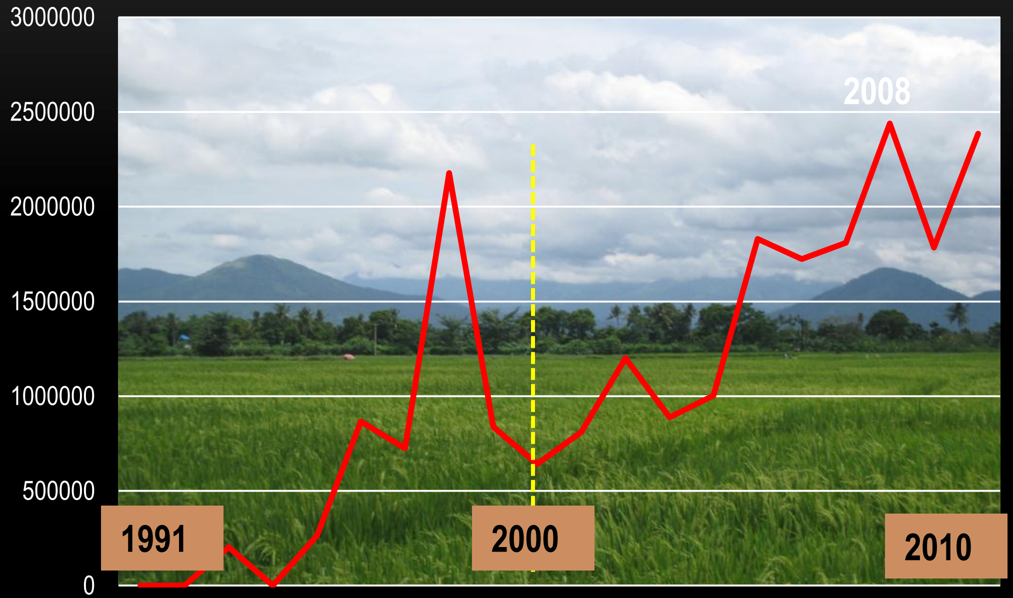
Per capita consumption (kgs)

1992 = 87.13

2008 = 119.08 . . . . . effects of economic growth, urbanization, demographic change, etc.

Required Volume (mt)	Export/Import (mt)
1992 = 5.70M	1992 = 0.35M
2008 = 10.78M	2008 = (2.40M)

Rice imports (metric tons), Philippines, 1991-2010.



Year	Imports
1991	61
2000	642,294

Year	Imports
2003	888,984
2004	1,003,401
2005	1,829,604
2006	1,723,277
2007	1,809,828
2008	2,438,932
2009	1,784,141
2010	2,386,217

Thinness of the market and susceptibility to export restraints

because of highly supply- and demand-inelastic nature of rice and thinly tradable food staple, small changes in supply or demand can have disproportionate impacts on the world prices

volatile rice price has been an important spectacle affecting the region’s food system in recent years

Outcome in the rice sector: function of supply and demand determinants, and especially the kind of policies and strategies employed

Speculative Buying

rice supply in the world market has dwindled

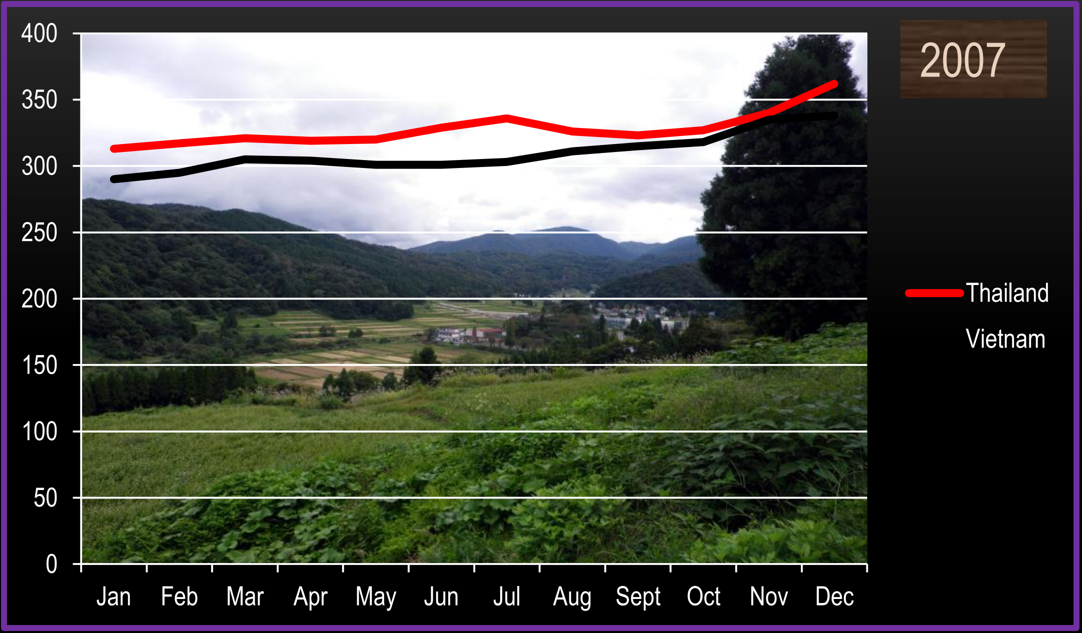
exporters hold on to their stock of rice while importers rush to the international market to buy more rice (to meet their consumption needs and to build their own stocks)

market shortages and rise in rice price have reached a crisis point ; quotes of rice price has reached US$ 1,000 per ton

Occasional Queues

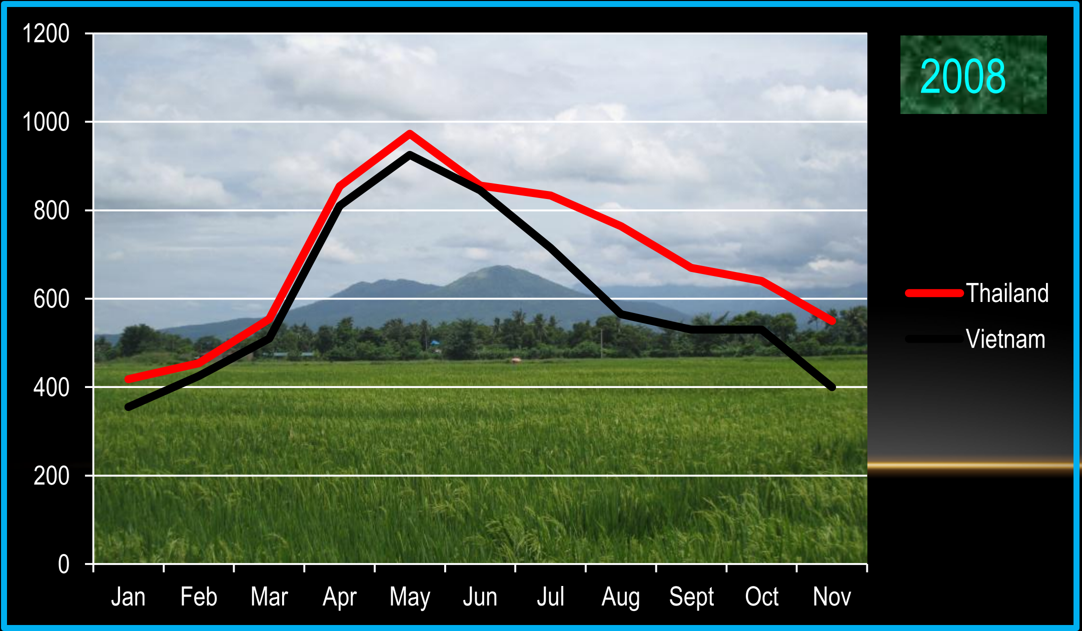
- hyped reaction to artificial rice shortage
- media makes too much of a big deal out of the crisis
- consumers tend to panic-buy while producers hoard their supplies

FOB price of rice US$/ton), Thailand & Vietnam, 2007 & 2008.



Mean	Std Dev	CV
327.75	12.70	0.0387
309.67	14.13	0.0456

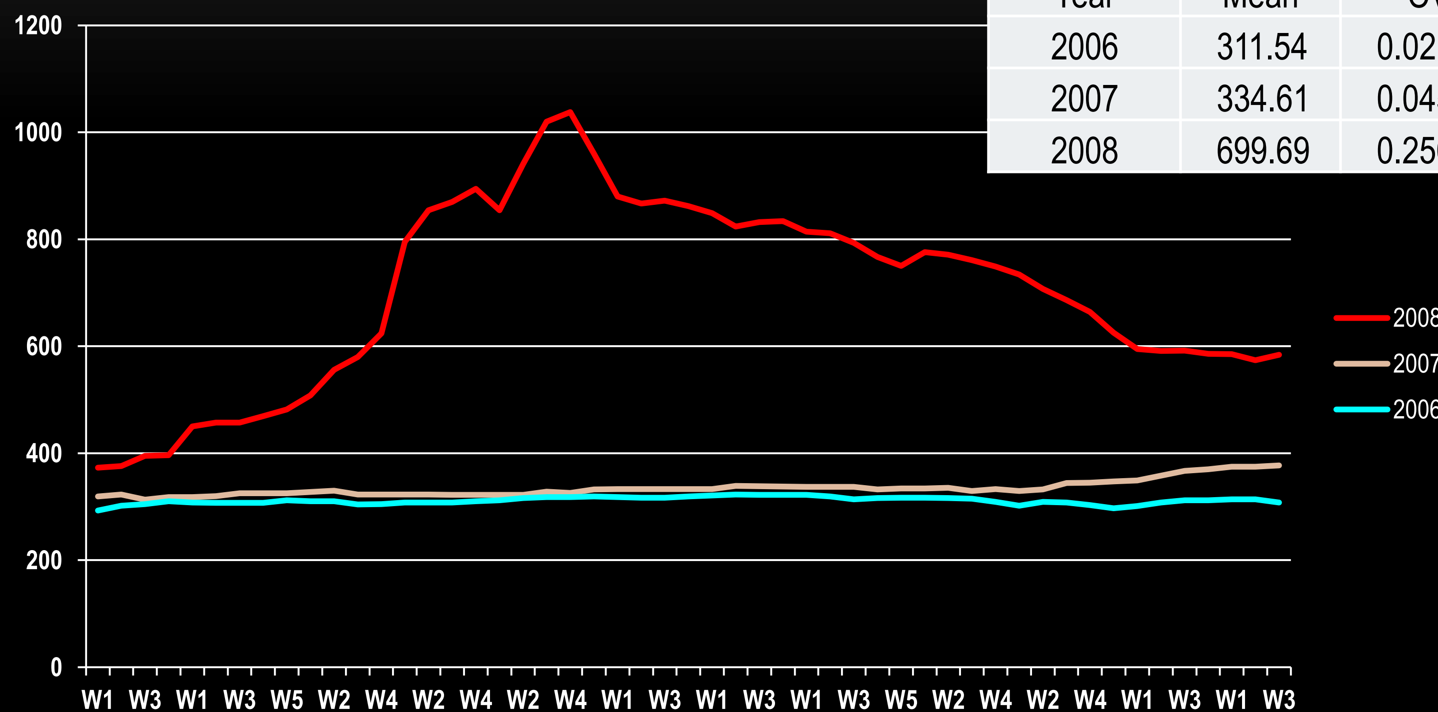
Higher variability in 2008



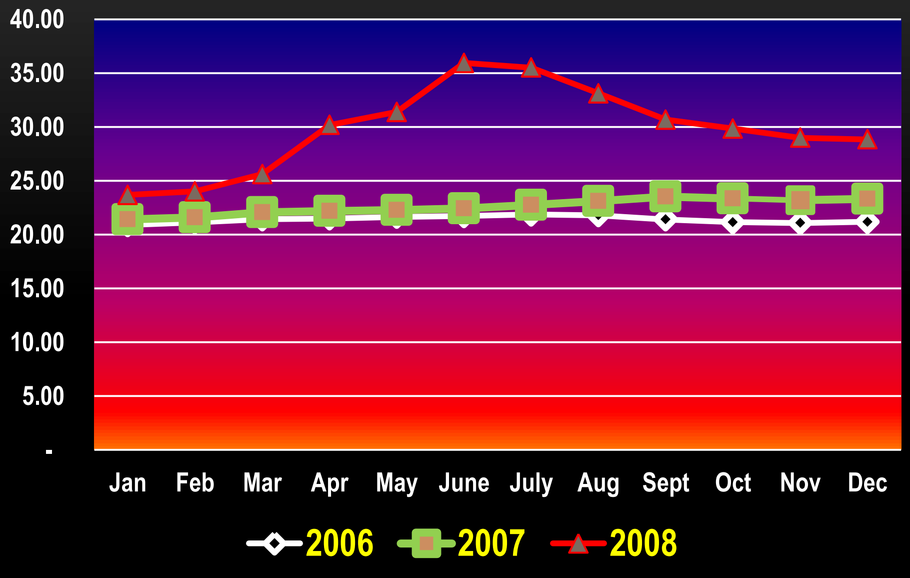
Mean	Std Dev	CV
687.82	173.49	0.2522
600.91	184.08	0.3063

Weekly FOB rice price, Thai 100% B second grade, 2006-2008.

Year	Mean	CV
2006	311.54	0.0215
2007	334.61	0.0456
2008	699.69	0.2505



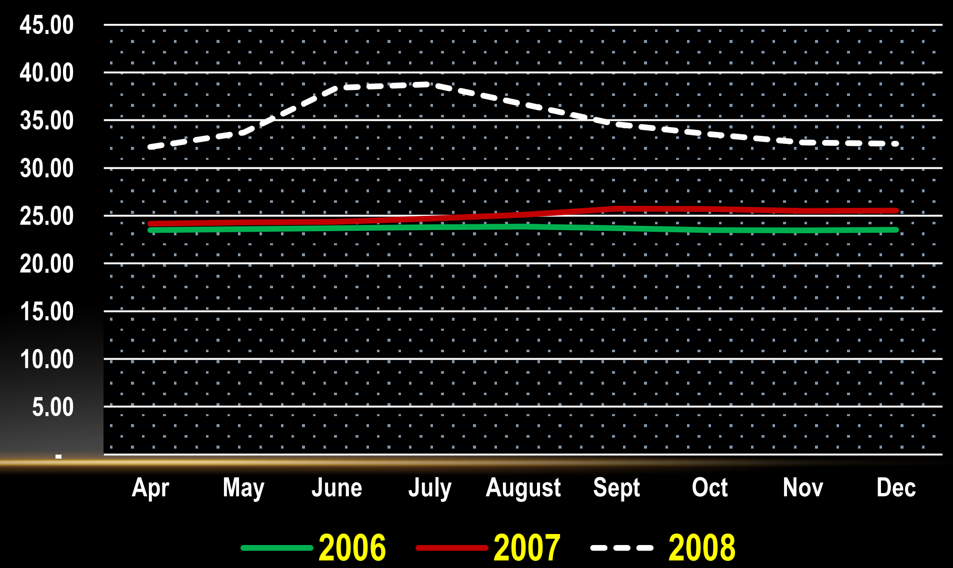
Wholesale price (PhP/kg.) of rice, Philippines, 2006-2008.

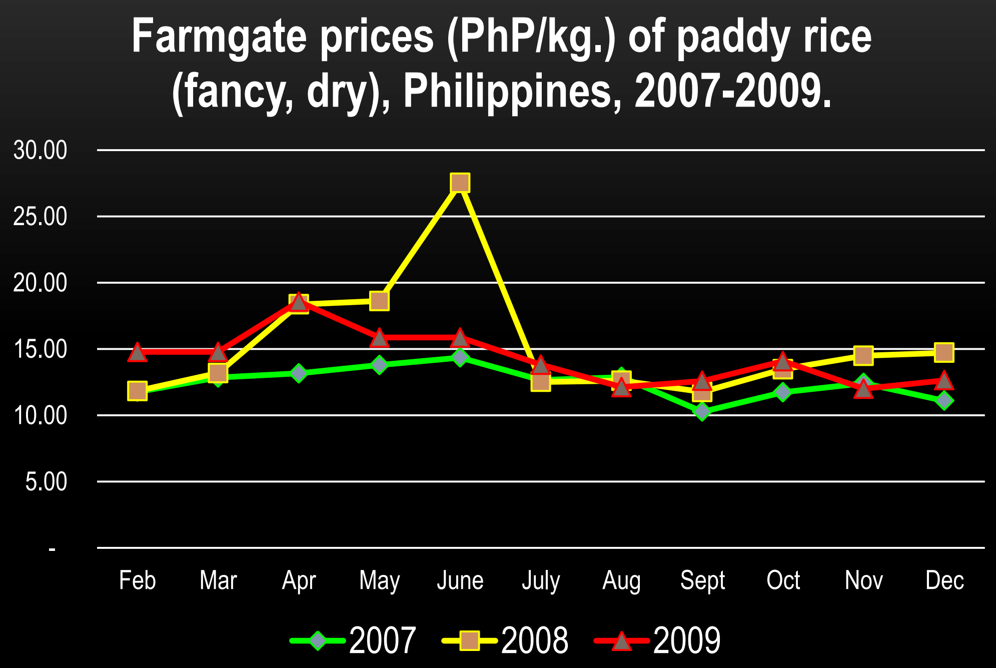


Year	Mean	CV
2006	16.68	0.0083
2007	18.06	0.0090
2008	24.52	0.0122

Retail price of rice (PhP/kg), Philippines, 2006-2008.

Year	Mean	CV
2006	23.62	0.0055
2007	25.01	0.0239
2008	34.78	0.0689





Year	Mean	CV
2007	12.3875	0.0922
2008	15.0217	0.3070
2009	14.2773	0.1391

Some Policy Implications (PFSO 2009-2010)

Efforts that distort market incentives can lead to unintended consequences.

- higher food prices may raise poverty rates;
- more food-insecure people

- price increases can lead to the deterioration of diets;
- may have adverse nutritional implications (IFPRI, 2008)

Study of Bathan and Pabuayon (2008)

Pre-crisis (Jan 2007 – March 2008)
Crisis (April – 1st wk of July, 2008)
Post-crisis (2nd wk of July – Dec 2008

1. Vulnerable sector rice farmers are most disadvantaged in terms of prices received compared to wholesalers and retailers

they experienced the lowest price hike between the pre-crisis and crisis periods and the largest drop in price after the crisis

2. Price instability greater at the farm level than at the wholesale and retail markets

Price stabilization efforts especially during the critical times are less successful at the farm level.

3. Rice type RMR price appears more unstable than WMR price

lower income consumers are hurt more by rapidly fluctuating prices

Nine-Point Program
Short- and Long-term Interventions

Source: International Rice Research Institute.www.irri.org

- reducing existing yield gaps
- delivery of new post-harvest technologies
- adoption of higher yielding varieties
- upgrading of rice breeding and research pipelines
- tapping the vast reservoir of untapped knowledge
- new generation of rice scientists and researchers
- increased public investments in infrastructures
- more efficient marketing system
- stronger food safety nets for the poor

Way Forward: Reinforcing Strategies

Avoid “beggar thy neighbor” policies

- need for stronger WTO disciplines on export restriction;
- check and balance on parochial objectives;
- avoid speculative buying

Reduce vulnerabilities of the poor

- candid and more effective safety net programs;
- pro-growth strategies to help especially the vulnerable sector (i.e., promotion of income generating activities (IGAs)

- importance of broad regional support

Open Food System Strategy or OFS (PECC, 2009)

genuine trade liberalization and rural development to agricultural economies throughout the region

- removal of trade impediments in food products
- food security
- creation of economic opportunities (investment in infrastructure; rural education and health care; partnerships between government and private-sector
- development, diffusion and use of technologies on food production, storage, shipping, packaging, and processing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