



Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Voluntary Report - public distribution

Date: 10/15/2002

GAIN Report #TH2090

Thailand

Grain and Feed

Council on Rice Trade Cooperation (CRTC): Thai Government Hopes Rice “Cartel” Will Boost Prices 2002

Approved by:

Rodrick McSherry

U.S. Embassy, Bangkok

Prepared by:

Russ Nicely/Ponnarong Prasertsri

Report Highlights:

The leading Asian rice exporting nations came together in Bangkok, Thailand last week, at the invitation of the Thai Prime Minister, to initiate cooperation among themselves to stabilize world rice export prices. Thailand, India, Vietnam, China, and Pakistan together have formed the Council on Rice Trade Cooperation for the goal of stabilizing world rice prices. Thailand's P.M. earlier said that the group would seek to get prices back to 1997 levels, some 30 percent higher than current prices. Rice exports from these five countries account for about 71 percent of the 24.5 MMT world market in CY 2001.

Includes PSD changes: No

Includes Trade Matrix: No

Unscheduled Report

Bangkok [TH1], TH

General Background

Thailand, the world's no. 1 rice exporter, has experienced downward pressure on rice export prices for several years, particularly since the economic crisis in 1997, of an annual decline of approximately 14 percent. Fierce competition among the major rice exporters is believed to account for the bulk of this price decline. The Thai Government response to this price decline has been to encourage the creation of an international rice trade cooperation group among the major Asian rice exporting countries, with the purpose of better managing exportable supplies among the group members, initially through cooperation and joint marketing efforts. The Thai Prime Minister, Thaksin Shinawatra, invited these countries to send representatives to Thailand to discuss their mutual interests in the world rice trade.

The five major Asian rice exporting countries, Thailand, India, Vietnam, China, and Pakistan, agreed on October 9, 2002 to establish the Council on Rice Trade Cooperation (CRTC). Noticeably absent from the group was Burma, the 8th leading rice exporter. The Council will have three levels of structure - a ministerial group meeting once annually, a senior officials' working committee group meeting twice yearly, and a secretariat that will commence activities immediately. The secretariat will be located in Bangkok, while the ministerial group meeting will rotate location among the member nations. The next meeting will take place in Vietnam, followed by China. The Ministry of Commerce will be the Thai governmental body involved in this group, as they have been given oversight responsibility for rice exports, among others.

The group intends to establish cooperation among member rice trading countries by exchanging information on production, export volume and markets, by discussing cooperation in technology development, and by strengthening trading and marketing efforts at national levels. The group's announced goal is to stabilize the world rice export price to maximize profits for their rice farmers. Reportedly, there has been no talk yet of establishing rice stocks, setting minimum export prices, or creating a joint rice trading venture. The Prime Minister of Thailand, Thaksin Shinawatra, indicated prior to this meeting that the stabilization of rice prices was the goal of this meeting, with 1997 levels being a price target. He also indicated that the United States would be invited to join in this cooperative effort after the agreement is established in Asia. The U.S. is the third largest rice exporter, with a 10 percent share.

Earlier discussions between Thailand and Burma on rice marketing cooperation seem to indicate that Burma will eventually join the council. Bilateral relations between the two countries ebbed during the past year, with their joint border closed from May until October. The Thai Foreign Minister visited Burma in early October, just before the inaugural meeting of the Rice Council, and relations have warmed considerably as a result. Burma is likely to want to join the Council and, given the earlier discussions, will probably do so at the first opportunity.

Analysis

Despite the ultimate target of price stabilization, a minimum rice export price set at or above the levels of 1997, a mechanism for price setting was not discussed at the meeting. The intent is for the group to eventually cooperate in such a way as to set a minimum export price for the Council's rice. However, Post notes that many commodity producers who set up international commodity agreements

(to attempt to duplicate the successes of OPEC during the 1970s and early 1980s) failed to maintain their agreements: - the sugar agreement collapsed in June 1984; tin in October 1985; cocoa in February 1988; coffee in July 1989; and natural rubber in April 1993. These failed attempts reflect the immense difficulties of trying to influence prices by managing output. Carrying buffer stocks ultimately proves too costly and other competing national interests lead to a break-down in group harmony.

Conclusion

Despite the powerful cooperation the CRTC represents in terms of the dominant market share of the world rice market, the ultimate goal of affecting lasting changes in world rice export prices is unlikely. The Council will face increasing pressures in their attempts to manage the world rice trade, particularly from low-cost producers who will be willing to sell for prices somewhat lower than those acceptable to the higher-cost producers.

However, the council could serve as a forum for suitable practical policy discussions for policymakers to discipline the producer supports each country currently offers. Parenthetically, a recent UNCTAD study indicated that the world rice price would increase by 18 percent if all rice producing countries reduced their domestic subsidies by 20 percent.