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Intelligence Memorandum

The World Rice Situation

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ER IM 73-65
November 1973

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The World Rice Situation

Since mid-1970, world rice production has declined, stocks in all countries have been drawn down, importing countries have been left with unfilled demand, and prices have moved up sharply. The harvest that began in August in the United States and in October in Asia is expected to bring at least temporary relief. Output will not be adequate to rebuild stocks, however, and another period of short supplies is expected in mid-1974.

Following the bumper crop of 200 million metric tons (excluding China and North Vietnam) in 1969/70, world rice output declined by about 9% to 182 million tons in 1972/73. The downturn reflected production cutbacks by some exporting countries and poor rice-growing weather, crop disease, war, and pricing problems in a number of Asian countries where most of the rice is grown and consumed. Production in the current crop year is expected to return to about 200 million tons as a result of improved weather in Asia and increases in the area planted around the world.

With less than 5% of production normally entering international trade, the export market quickly moved from a situation of surplus stocks and depressed prices in early 1971 to the lowest stocks and highest prices on record by mid-1973. As a result, many importing countries had to shift to other grains to feed their populations. By drawing on the current harvest, the United States -- the largest exporter -- will be able to maintain exports in 1973 at nearly 2 million tons, but total world exports will be only about 6.5 million tons. Exports may reach 7.4 million tons in 1974.

Although prices are now falling some and probably will decline further in early 1974, world demand will continue to press hard on supplies, and prices may move up again before the next crop becomes available in the latter part of 1974. Demand for US exports on concessionary terms will continue to be high, but the rice may not be available at reasonable prices.

The longer range outlook is for continued sharp fluctuations in the world rice market. Even with increased use of high-yielding seeds, rice output in Asia probably will increase by only about 3% annually. A number of countries will remain heavily dependent on imports, especially in years of poor crops.

Note: Comments and queries regarding this memorandum are welcomed. They may be directed to [redacted] of the Office of Economic Research, Code 143, Extension 7101.

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DISCUSSION

Introduction

1. Since mid-1972 a number of countries of Asia, where most of the world's rice is grown and consumed, have been unable to buy the amounts of rice needed to feed their growing populations and curb steep increases in domestic prices. Tightness in the world rice market is the result of a decline in production during the past three years.

Production Trends in Recent Years

2. World rice production, excluding China and North Vietnam,[1] declined for three successive years following a peak output of about 200 million tons in 1969/70 (see Table 1). The first two years of the downtrend resulted from production cutbacks in the United States and Japan and poor weather, crop disease, war, and pricing problems in a number of Asian countries.[2] Last year, erratic and sparse rainfall across Asia, Africa, the Middle East, and South America caused a 6% drop in production. Recent trends in world production are indicated by the following indexes.

	Index 1969/70 = 100		
	United States and Japan	Other	World Total
1970/71	88	99	98
1971/72	78	99	96
1972/73	84	92	91

Rice Trade and Prices

3. Most rice is consumed in the producing country; less than 5% of world output enters international trade. Therefore, even minor shifts in production or stock accumulation may have a large effect on trade. When production declines, demand for imports normally rises even though each country attempts to offset a crop shortfall by belt-tightening, drawing down stocks, and switching to other foodgrains. If exportable stocks have already

1. No reliable time series is available for China or North Vietnam. China produced an estimated 105 million to 110 million tons of paddy rice in crop year 1971/72. (Crop years begin on 1 August of the first stated year.
2. For details on production, stocks, exports, and prices during the 1960s and early 1970s, see ER IM 72-169, The World Rice Shortage, December 1972, ~~CONFIDENTIAL.~~

Table 1

Paddy Rice Production, by Major Producers[1]

Million Metric Tons

	1969/70	1970/71	1971/72	1972/73[2]	1973/74[3]
World total[4]	**200**	**196**	**193**	**182**	**200**
United States	4.1	3.8	3.9	3.9	4.3
Japan	18.2	15.9	13.6	14.9	15.3
Major Asian producers					
Thailand	13.4	13.6	13.7	12.0	14.0
Bangladesh	18.2	16.7	15.0	15.0	19.0
Burma	8.0	8.1	8.2	6.8	8.0
Cambodia	3.8	3.8	2.7	1.0	0.8
India	60.6	63.7	64.5	55.5	65.0
Indonesia	16.2	18.4	19.3	18.8	19.0
Pakistan	3.5	3.2	3.4	3.5	3.5
Philippines	5.2	5.3	5.1	4.6	5.3
South Korea	5.5	5.6	5.8	5.3	5.5
South Vietnam	5.1	5.7	6.3	5.9	6.1
Taiwan	3.0	2.9	2.7	3.1	3.9
Other	35.2	29.3	28.8	31.7	30.3

1. For crop years beginning 1 August of first-stated year.
2. Preliminary. For a few countries, significant differences exist between the estimates published by the Department of Agriculture and information available from other sources. In general, however, the differences offset each other, resulting in a fairly close agreement regarding the world total.
3. Forecast, based mainly on information from US rice specialists, who toured Asia in September-October 1973, representing the rice industry and the Department of Agriculture, and from recent agricultural attache reports.
4. Excluding China and North Vietnam, for which reliable data are not available on an annual basis. Chinese production is estimated at 105 million to 110 million tons in 1971/72.

been drawn down, world prices can rise sharply. All of these elements were present in 1972, as the world rice market shifted from a condition of readily available supplies to one of shortages.

4. In 1970/71, surplus stocks in exporting countries depressed world prices and brought special export efforts, including price cutting and sales with soft long-term loans. Exports increased from 6.8 million tons[3] in 1969

3. Although worldwide production data are available on a paddy rice and crop year basis, trade data are available only for milled rice by calendar year. Milling rates vary from 0.60 to 0.75. An average rate of 0.65 may be used to convert to milled rice equivalents.

to 7.8 million tons in 1971 (see Table 2). Some Asian countries took advantage of the low prices and easy credit to raise consumption, substituting rice for less preferred grains. South Korea, which had increased imports steadily since 1965, imported more than 1 million tons in 1971.

Table 2

World Exports of Milled Rice: by Country

Thousand Metric Tons

	1970	1971	1972[1]	1973[1]	1974[2]
Total	**7,561**	**7,801**	**8,300**	**6,515**	**7,420**
Australia	111	186	172	190	220
Brazil	95	129	149	125	....
Burma	719	800	510	100	300
China	935	745	800	900	900
Egypt	654	515	456	350	500
Italy	347	438	428	200	500
Japan	630	900	200	650	200
Pakistan	482	467	300	700	600
Thailand	1,062	1,576	2,076	950	1,600
United States	1,740	1,415	2,034	1,950	2,000
Other	786	630	1,175	400	600

1. Preliminary.
2. Forecast, based mainly on information from US rice specialists, who toured Asia in September-October 1973 representing the rice industry and the Department of Agriculture, and from recent agricultural attache reports.

Indonesia imported between 500,000 and 1 million tons each year during 1970-72. The Philippines, South Vietnam, and Cambodia increased imports to offset production problems. The resulting trends in world exports and prices are indicated in Table 3.

5. The export situation changed rapidly in mid-1972. Surplus stocks had been liquidated, and prospects for the 1972/73 crop were poor. In the Northern Hemisphere, stocks are normally at their seasonal low from June or July until the new harvest begins -- in August in the United States and a few months later in Asian countries. In mid-1972, Thailand, Burma, and Brazil temporarily restricted exports because of domestic shortages and steeply rising internal prices. Japan and Pakistan had only small quantities of poor-quality rice available for export in the last half of the year. By 1 August, the US carryover stock was down substantially, and much of

Table 3

Indexes of World Rice Exports and Prices

1963=100

	Export Volume	Average Price
1963	100	100
1964	104	95
1965	109	95
1966	103	115
1967	96	154
1968	88	141
1969	92	130
1970	103	99
1971	106	89
1972	113	106
1973[1]	88	160

1. Estimated.

it already was committed. Despite these problems, world exports reached a record level of about 8.3 million tons in 1972. A number of Asian countries nevertheless were left with unfilled requests and had to import other foodgrains instead of rice. By December 1972, export prices had increased nearly 50% compared with those of a year earlier (see Table 4).

Exports During 1973

6. Only some 6.5 million tons of rice will be exported this year. Export sales were small and sporadic from June until the US crop became available, and wholesale prices have increased by nearly 50% since 1 January (see Table 5). Thailand ceased quoting export prices in March and banned further large export commitments in June until the size of its 1973/74 crop could be determined. Limited rice exports were resumed in October, and price quotes for the winter harvest may be issued in November. Burma and Italy also banned exports to protect domestic markets. These three countries may account for the total decline of 1.8 million tons expected this year.

7. The United States is the only major exporter that ships much of the fall harvest before the end of the calendar year. The first part of the crop normally is available for export in September. As a result of this year's poor weather (which delayed both planting and harvesting) and low stocks, exports in August and September were held to 150,000 tons -- about

Table 4

Thailand: Export Prices for Milled Rice[1]

US $ per Metric Ton

	1969	1970	1971	1972	1973
January	181.20	154.20	139.20	133.81	191.50
February	178.80	151.20	125.10	129.50	194.00
March	185.28	143.04	115.20	130.50	208.05[2]
April	183.60	139.20	112.80	131.05	
May	190.80	139.20	123.84	135.35	
June	197.76	141.60	127.20	135.35	
July	198.60	142.80	129.00	147.35	
August	188.40	145.68	131.52	171.00	
September	186.68	142.20	136.20	166.20	
October	185.40	142.50	133.80	170.90	
November	186.00	141.60	130.80	178.00	
December	178.56	138.00	127.80	188.80	

1. Prices relate to first-quality Thai white rice (5% brokens), which is traditionally used to indicate world price trends. The data are for the end of the month. The prices are f.o.b. Bangkok.
2. Thailand suspended price quotations on 5 March 1973.

Table 5

United States: Wholesale Price for Milled Rice[1]

US $ per Metric Ton

	1971	1972	1973
Monthly average	191	216	330[2]
January	190	196	284
February	190	196	284
March	190	196	284
April	190	196	337
May	185	201	337
June	192	201	337
July	192	201	337
August	192	201	359
September	192	220	408
October	192	231	
November	192	276	
December	196	276	

1. Price in New Orleans market.
2. January-September average.

40% less than last year. Shipments are expected to move rapidly during the last quarter, and the 1973 volume should approach the 2.0 million tons exported in 1972. Export prices appear to have peaked in October. Both US domestic and export sales were brisk in late October and early November at slightly reduced prices. Prices are expected to decline further when the Thai crop comes on the market later this year.

Current Crop Outlook and 1974 Trade Prospects

8. The 1973/74 rice crop is expected to be excellent, probably equaling the previous record (see Table 1). Monsoon rains in Asia were favorable; acreage was expanded in most countries; summer floods and typhoons caused only limited damage; and harvesting, although just getting under way in southern Asia, is progressing well. Output of all major Asian producers except Japan and Cambodia is expected to about equal or exceed 1969/70 levels. Although Japan did not expand acreage this year, output increased because of higher yields. The rice crop in Pakistan was not damaged as much by the September floods as was first expected. US farmers were permitted to expand acreage by 20% this year, but production is not expected to increase to the same extent. The generally late spring and storm damage in the southern growing areas during September reduced the crop, according to the Department of Agriculture's 1 November estimate, to 4.3 million tons, a 12% increase over last year's harvest. Italy is harvesting about 1.0 million tons, a 10% increase over last year's, and other countries that contribute to the export market are expected to have normal crops on the average.

9. Larger crops will mean a more comfortable supply situation in a number of Asian countries during the early part of 1974, but more than one good crop will be required to replenish stocks because demand will continue strong. By mid-1974, supplies may become tight and prices high again, although the shortage is not likely to be as severe as it was this year. Estimated exports in 1974 will be about 7.4 million tons, up by nearly 1 million tons from 1973, but still considerably below the 1972 high (see Table 2). This level will not allow importing countries to obtain all they want for current consumption and stock rebuilding. South Korea, the Philippines, Indonesia, South Vietnam, Cambodia, and Bangladesh will want more rice than is likely to be available to them.

10. Of the approximately 2 million tons available for export from the US crop, about 600,000 tons probably will be shipped under the PL-480 program, mainly to South Vietnam and Cambodia. PL-480 exports were 1.3 million tons from the 1971/72 crop and 940,000 tons from last year's crop. Because of a legal restriction that prohibits disruption of the commercial market by PL-480 shipments, there is still some question as

to whether 600,000 tons can be purchased. About 200,000 tons probably will be purchased by the end of November. If the tight market eases later this year and is stable during early 1974, careful buying in small quantities of the remainder may not increase prices significantly. Although purchases financed under PL-480 in some instances replace commercial purchases that otherwise might be made, on balance they increase demand. US experts predict that commercial export commitments may amount to 1.2 million tons by the end of December, leaving only about 800,000 tons available in the first eight months of 1974 to meet commercial and PL-480 needs.

11. Next year's rice market could be eased measurably if China decides to increase rice exports as it did in 1966 and 1967, when world prices were unusually high. At that time, China exported more than 1 million tons each year, compared with exports of 600,000 to 800,000 tons during 1963-65. Peking reportedly has increased imports of wheat and corn this year to free large quantities of rice for export.

Crop Prospects

12. For most countries, rice output will as usual depend mostly on the weather. Production in the United States probably will increase substantially in 1974, provided that prices do not decline markedly before the spring planting season. The Department of Agriculture has announced the removal of rice marketing quotas and fixed price supports at 65% of parity for a minimum acreage -- changes that the Department of Agriculture predicts could increase output by 30%-40% in one year. Japan also is expanding acreage, and several other Asian countries are trying hard to increase production.

13. Given average weather, output in Asia during the next several years will increase at an average of about 3% annually, a rate barely sufficient to keep pace with population growth and provide modest improvements in diets. The use of high-yielding seeds continues to spread slowly -- reportedly to about 17% of the total rice area of South and Southeast Asia in 1971/72 -- but average yields have remained low for lack of fertilizer and irrigation. Research is continuing to improve cooking qualities and disease resistance, two factors that limited the use of these seeds at first. The major long-term problem in achieving the potential of the high-yielding seeds is the small area that has adequately controlled water supply. A number of countries will continue to be heavily dependent on imports, especially in years of poor crops.