

# Troubling trade

*It would be easy to think that the escalating price of rice is a boon for exporters—but, in a Thailand exclusive, Rice Today reports on the chaos that has Thai traders reeling*

Story and photos by Bob Hill

International rice trading is not a business for the faint-hearted.

Thailand's exporters knew that well. They also knew, when they prepared in November 2007 for what was supposed to be a boom year ahead, that prices were likely to rise. Little did they realize how steep that rise would be.

Poor weather and domestic supply concerns had severely restricted competition on the world's markets from Vietnam and India, Thailand's main export rivals. China, Egypt, and Australia had also

restricted their rice exports. So, 2008 amounted to a one-horse race, and, as the 2007 harvest began to roll in from the fields, Thailand's exporters began their wheeling and dealing, with buyers clamoring at the door.

"You can only make money if you speculate properly," says veteran exporter and former president of the Thai Rice Exporters' Association Vichai Sriprasert. "At the time of the deal, we expect to make \$5 a ton. Nobody has 100% of the stock in hand. We hope to buy the rest. If I end up making \$1 per ton, then I'm happy with that."

It was their forward-orders

practice that let them down, in a sellers' market the likes of which they had never experienced before. Local and export prices were soaring, even as they struck their deals to deliver in three or four months' time, when they still had to buy the rice they had just sold. In some cases, the small profit margins they were happy to accept disappeared within a few hours. Then, they could only watch in despair as the spiraling prices battered at their solvency. In order to honor their commitments, some were forced to buy milled rice at a ruinous US\$200 per ton more than they had agreed to sell it.



PARBOILED RICE is loaded at a riverside dock in Bangkok. It will be hauled down the Chao Phraya River to the Gulf of Thailand, to be loaded aboard cargo ships bound for Africa.



THAI RICE Exporters' Association Secretary-General Korbsook Iamsuri (right), who is also chief executive of the Kamolkij Group of companies, oversees the sealing of bagged parboiled rice bound for Nigeria and Benin in Kamolkij's Bangkok plant.

In the few months from November to February, 30 to 40 exporters, many of them among the country's most experienced traders, lost an estimated \$128 million.

Worse still, supplies of paddy (unmilled rice) all but dried up in late February, leading to claims that farmers and millers were hoarding it to speculate on even higher prices. The government ordered an official check of its own stocks after the discovery that 12,000 tons of paddy had "disappeared" while in the storage custody of millers, and exporters scoffed that 12,000 tons was the tip of a very large iceberg. The accusations rumbled back and forth through a shell-shocked industry, bleeding on the one hand and profiting on the other. At the same time that many exporters faced heavy losses, farmers, local paddy traders, and many millers profited like never before.

Unable to find supplies and

badly scared, many of Thailand's smaller exporters withdrew from trading in March, to brood and wait for the second crop to come in, later that month and in April. Others cautiously accepted orders no more than one month in advance.

Had they kept an eye on world food prices, they might have been forewarned. The price of wheat has doubled since April 2007 and the food price index of the United Nations' Food and Agriculture Organization climbed by almost 40% in 2007. Demand is outpacing supply and the world's stocks of cereals like rice are dwindling to the point at which they can no longer provide an effective buffer in years of poor production.

Although population growth is the fundamental cause, the production and pricing problems are also partly due to weather problems linked to climate change as well as rising oil prices boosting demand for biofuels. Changing diets in fast-

developing countries such as China are also a factor, with more land needed to raise livestock to meet increasing demands for meat.

"The force of the technology that created the Green Revolution has run out," says Mr. Vichai. "World stocks of rice have been falling for 4 or 5 years, and consumption of rice exceeds production. This is a very dangerous situation. We need a new level of technology in the rice fields of the world, so that we can meet the demand."

In 2007, Thailand exported about 9.5 million tons of rice. In the 4 months from November 2007 to February 2008, exports accelerated to 1 million tons per month—well above the expected monthly rate of 800,000 tons. Some of Thailand's biggest firms, such as CP Intertrade, part of the giant Charoen Pokphand conglomerate, say that rice exports will bring them a bonanza. Other big firms that bought rice at auction

from the Thailand government's stocks and were still holding sizeable amounts also raked in big profits in the early months of the year. Smaller exporters simply didn't have the money to do that.

The Thailand government has set a target of 8.75 million tons for rice exports this year, and a senior government official close to the rice trade says he is "quite positive" the target will be reached.

The country has about 400 licensed rice exporters. Of these, 185 belong to the Thai Rice Exporters' Association, and, according to its secretary-general, Korbsook Iamsuri, this group accounts for more than 80% of the country's rice trade.

The association says that, in the 3 months from 6 December 2007 to 12 March 2008, the f.o.b. prices of major Thai export grades of rice rose way beyond expectations. The price of 5% white rice rose from \$348 to \$544 per ton; Hom Mali 100% B climbed from

\$606 to \$771; parboiled 100% went from \$380 to \$604; and broken A1 super rose from \$321 to \$512. At last report, the pace of the escalation was undiminished. (f.o.b. stands for "free on board," which means the seller bears the cost of loading goods onto a ship or other form of transport, at a given port or point of departure.)

Making the trading position of Thai exporters much more difficult is the need to conduct all transactions in U.S. dollars. Not only is the dollar growing weaker, but their home currency, the Thai baht, is appreciating against the dollar and showing no signs of slowing down. In January 2006, one U.S. dollar bought 40.77 baht; in January 2007, 35.55 baht; and in mid-March 2008, just over 31 baht. As difficult as making a modest profit has become, it is often further eroded by a volatile exchange rate.

"The exporters are scared," admits the government official,

who asked not to be named. "They must wait and see what happens. Meanwhile, there is speculation and hoarding. The exporters can't buy rice, so this is a difficult time for exporters and millers. The farmers think prices will continue to rise."

Normally, the annual crop totals 18 to 19 million tons of milled rice. Nine million tons are consumed domestically, eight or nine million tons are exported, and the rest is held in stock.

"We don't know where the 2007 harvest is," complains Ms. Korbsook. "At this time last year, I could buy 100,000 bags per day without any trouble. Today, I'm lucky if I can get 10,000 bags." She accuses farmers and millers of hoarding stocks to speculate on higher prices. "They should be selling it now, if they're going to sell it at all, because they're getting a 500% markup. But nothing is hitting the market. It's madness!"

Ms. Korbsook is also chief



PARBOILED RICE rolls out of the Bangkok plant of the Kamolkij Group of Companies, bound for Nigeria and Benin, in Africa.



MS. KORBSOOK is chief executive of the Kamolki Group of companies, which claims to be the world's largest exporter of parboiled rice.

program has seen the government gather huge stocks of up to five million tons, spread around the country in countless warehouses, many of them privately owned. The stocks have then been sold from time to time by an electronic auction system. In March, the government's stocks were officially 2.1 million tons.

executive of the Kamolki Group of Companies, having taken over the family firm from her father. It claims to be the world's largest exporter of parboiled rice (which is soaked and steamed before milling), shipping 400,000 tons per year to markets such as Nigeria and India.

In an effort to shift the paddy onto the market, the exporters' association has urged the government to set aside its controversial price intervention program, a move it says would save Thailand billions of baht per year. The association suggests that, without a price guarantee as a psychological backstop, farmers may opt to sell, easing pressure on domestic prices and dealing with the current supply shortage.

The price intervention program has existed for some years, but began to play a significant role in the country's rice production and marketing system as one of the early "populist" policies of the deposed Thaksin administration. Since the military takeover in September 2006, guaranteed prices have sunk far below market prices. But, since the election of the new government in December last year, populism is once more a driving force in Thai politics.

Under the scheme, farmers can opt to sell to the government at a guaranteed price or sell to traders or millers if they can make more money. In years of low market prices, the

The exporters' association warns that, if the new government uses the program to once again set high guaranteed prices, it will affect both local and export markets.

The intervention scheme has encountered many problems, the least of which were claims that rice entering the program had been mixed, with lower-graded rice mixed with premium grades. This led not only to extensive accusations but also to widespread DNA testing to ensure that buyers were getting what they paid for.

There have also been repeated claims that quantities of government stocks being held in private storage have "gone missing."

Ms. Korbsook dismisses the program as riddled with corruption and losses, and says that quantities of rice have been sold, switched, or mixed. "Maybe the politicians have benefited," she says, "but it means that the farmers don't go for quality. They can sell anything at all at the guaranteed price. It discourages improvement. The farmers don't care when the market needs better quality."

"In theory," concedes the government official, "it is not good, because we should let supply and demand work. We shouldn't intervene in the market."

"But realistically, the program is suitable for the character and

circumstances of Thailand. Developed countries subsidize their farmers directly, but we don't have that much money. We have 3.6 million farming families in rice alone, so we can't afford subsidies. We don't put a lot of money into this intervention. We absorb some surplus quantities."

"They keep the rice everywhere," says Mr. Vichai. "Private millers are holding a lot of it, and the millers sell the paddy belonging to the government first. When the government releases stocks, they scramble to replace it, and instead of the price going down, it goes up!"

The exporters are also quick, in their current frustration, to refute the notion that middlemen have consistently squeezed farmers dry. Mr. Vichai, whose company, Riceland International, began in the tough times of the Great Depression of the early 1930s and who took over from his father after studying economics in the U.S., says that, even in the best of circumstances, the profit margins of rice exporters are figured in fractions of 1%. Thai farmers, on the other hand, often make 100% percent profits on their rice crops.

"The truth is, they will still be poor because they don't have enough land," he says. "They will not earn enough for a good life. We have too many people and too little land."

The exporters claim that producing paddy costs farmers about 5,500 baht per rai (0.16 hectares), which at a recent exchange rate is about \$1,100 per hectare. Even if a farmer plants 2.5 hectares—around the national average farm size—and both his yield and selling price are optimum, his 100% profit will still be only about \$172 per month.

The price rises also came too late for the poor rainfed farmers, whose harvest was in October and November. The main profiteers have been the irrigated farmers of Thailand's central region, who plant three crops a year.

In the midst of the turmoil, Thailand's rice industry has become intensely introspective. Government departments feel that development of the country's rice industry still

has a long way to go, particularly in the effort to build yields and reduce water use. There has been talk of bringing the industry together to discuss its future, in the hope of achieving some kind of unity.

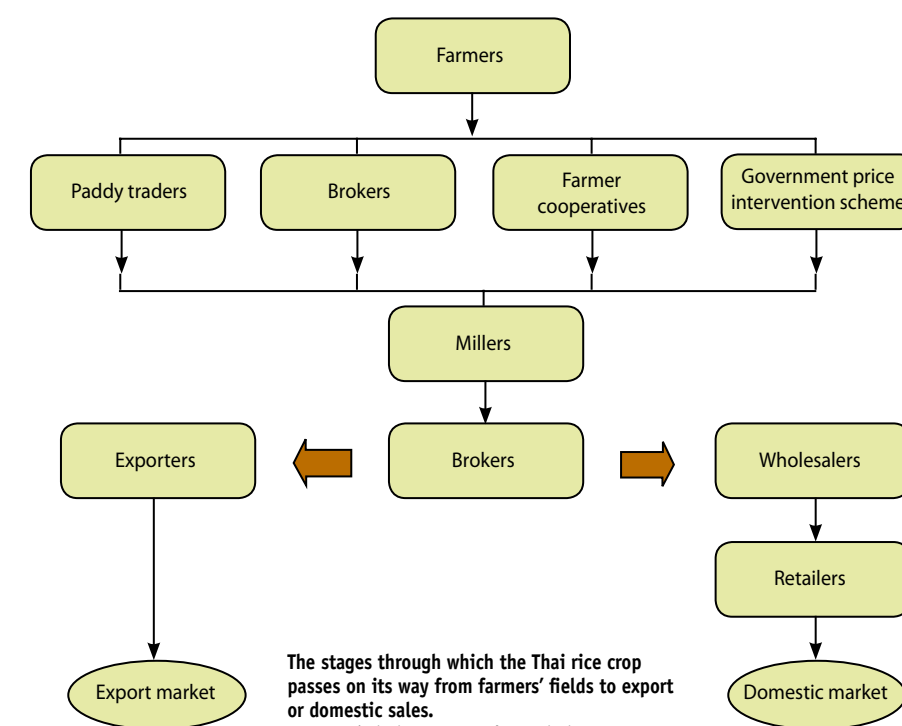
There's also a plan to implement a zoning system in which farmers will be compelled to grow varieties that perform well in their local farming conditions and that are in market demand. The senior government official said the plan needed another 4 or 5 years to set up, but, once operating, it would help overcome present problems and assist in the marketing of Thailand's crop. The exporters are skeptical, pointing out that there's not a farmer born who takes kindly to any kind of compulsion.

Whatever might happen, prices are still rising.

"It is purely a matter of supply and demand," Mr. Vichai says. "Higher oil prices mean that farmers are changing to fuel crops, and these crops will need more land and more water. Rice prices have to go up, or humanity will have nothing to eat. The price will have to rise to the point where rice can compete, financially,



THAI RICE EXPORTER Vichai Sriprasert.



The stages through which the Thai rice crop passes on its way from farmers' fields to export or domestic sales. Source: Thai Rice Exporters' Association.

with fuel crops. I believe the domestic price of rice will triple, and will reach \$1,000 per ton on the export market, just to catch up with oil prices.

"Maybe, at some point, the Thailand government will intervene to protect domestic consumers."

The senior government official disagrees with the expected move to fuel crops. "Shifting to fuel crops is not easy," he says. "You need suitable land and conditions. Our culture demands that we still must have rice as our staple food. It is our soul and our spirit. In the beginning, we grew rice for our own consumption, and we expanded to become world leaders in rice production. No matter what happens, we will still grow rice."

In one way, both Ms. Korbsook and Mr. Vichai are typical of long-standing rice exporters in Thailand: they come from family firms that have been operating for several generations. Their companies have diversified their businesses purely because of the huge risks and difficulties of rice trading on its own, and the businesses have been kept within the family.

Ms. Korbsook believes a complete overhaul of the rules and regulations surrounding Thailand's entire rice industry is long overdue, and she is scathing in her criticism of what she claims is the industry's lack of ordinary integrity. "Rice has so many steps to pass through and there's fraud, theft, and mismanagement all along the way."

Mr. Vichai sees what is happening as a "disruptive situation."

"Too few people acknowledge that it takes integrity—an integrity built up over generations of reliability—to survive in this kind of situation," he says. "This is a crucial time. It will tell the story of who will survive and who will not survive."

Bob Hill is a Thailand-based writer specializing in science and technology.