

## The 2007-08 Rice Price Crisis

How policies drove up prices... and how they can help stabilise the market

After increasing slowly and steadily from historic lows, world rice prices tripled in just six months during 2007-08. The price surge caused much anxiety because so many of the world's poor are rice consumers. And it caught many by surprise as market fundamentals were sound. Indeed, it was government policies, rather than changes in the production and consumption of rice, that drove the surge. This suggests that improved government policies can help avert such crises in the future.

### Rice crisis harmed the poor

Media attention focused on the events in international markets, because that is where the largest price movements occurred. The effects of the crisis, however, were mostly felt in poor households in the developing world where rice provides more than a quarter of all calories, much more than any other food item.

Domestic rice prices in developing countries increased by up to 90 percent between the third quarter of 2007 and the same quarter in 2008, with a typical year-on-year change of about 30 percent. This sudden increase particularly hurt the poor, who generally consume more rice than they produce, especially where rice is the country's staple food. While some farmers did benefit from higher prices (especially those with large landholdings), the unpredictability of price changes made investment decisions risky. Indeed, some farmers planted when prices were high, but harvested when prices were low. It is thus questionable whether rice producers profited on the whole.

### Market fundamentals were sound

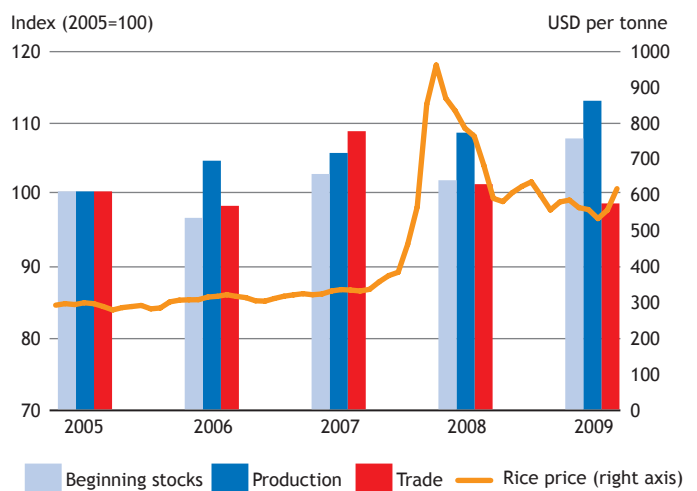
The crisis was not expected by most market observers. Rice production kept pace with increases in demand, and indeed reached new record highs, while stocks remained roughly constant in the three years before the crisis (see figure 1). Similarly, the situation on international rice markets did not give reason for concern. Even in the midst of soaring food prices, rice exports actually grew in the first few months of 2008.

Given the positive situation as regards production, stocks and trade, there were thus ample supplies available on world markets to satisfy countries' demand, including from those facing food security

- Despite ample supplies of rice, its price soared in 2007-08, pushing many poor people into food insecurity
- Trade interventions by both exporters and importers were a significant driver of the surge
- To prevent future crises, WTO rules should be strengthened while government policies should be more predictable and allow a greater role for the private sector

challenges. Even speculative trading on futures markets, which might have amplified price trends for other commodities, is not significant enough in the case of rice to have caused the turmoil (trade volumes are much below those on other established grain futures markets).

Figure 1: Rice price increased despite sound fundamentals



Source of data: FAO (2010)

Note: Production and beginning stocks refer to marketing year (e.g. 2005 is 2004-05)

While fundamentals in the rice market were sound, those for other food commodities did point to higher prices (e.g. wheat, corn, soybeans). As farmers and consumers can and do substitute between different foods, some spillover into the rice market was to be expected. However, the size of the rice price increase went well beyond what could be explained on the basis of such substitution - it was ultimately government policies that led to the crisis. Indeed, the price hike was faster and stronger for rice than for other cereals that were facing a tighter global supply and demand situation.

## Policies fuelling uncertainties

The developments in international food commodity markets created an atmosphere of concern among many countries. In response, governments tried to protect their populations from the implications of the evolving food price crisis. Large producers of rice restricted supplies to the world market in order to avoid shortages for their own consumers, either by completely banning exports or announcing increasingly high minimum export prices. Many rice-importing countries, on the other hand, waived tariffs and other taxes on rice imports in an attempt to scramble for supplies to stabilise their own markets. Others announced plans to build up stocks during the crisis, further driving up demand.

Many policy measures were taken abruptly and without prior consultation with trading partners, thus amplifying uncertainty. Frequent shifts in both the announcement and implementation of policies, as well as hasty proclamations from government officials, further destabilised markets and intensified hoarding of supplies by farmers, traders and consumers.

The response of many governments had another effect: it crowded out the private sector. In some cases, public purchases were made at prices well above the market level, using large tenders that restricted the participation of smaller traders. Such market interventions further fuelled anxiety by producers and consumers.

## Lessons for the future

While trade restrictions allowed some countries to prevent transmission of the crisis to their populations, domestic stability was achieved at the cost of destabilising the world market. It is very likely that the rice crisis would not have occurred if these

measures had not been taken. Thus, one lesson from the rice crisis is to strengthen disciplines of the World Trade Organization so that export restrictions are used less frequently.

Making trade restrictions less harmful offers an additional approach to stabilising the world rice market. An important step in this direction would be to make government policies more predictable. While many governments understandably want to maintain some flexibility in addressing sudden unforeseen events, some policy changes could be avoided. Others might be implemented according to pre-announced schedules or criteria in which changes are phased in automatically in response to external events.

The rice price crisis also demonstrates that the role of the private sector in carrying out trade should be strengthened, even if governments determine when trade takes place. Private sector traders are unlikely to pay unduly high prices, and their smaller trade volumes are less likely to move the market. Expanding the role of the private sector is particularly important for the world rice market, which is smaller than other world cereal markets and can thus be influenced more easily by large operations of governments.

The experiences from the 2007-08 rice price crisis are particularly important as rice is a key staple of the world's poor. However, the lessons from this man-made crisis apply to food markets in general. Countries need to realise that a stable global market ultimately serves national interests, including the protection of poor consumers and farmers who depend on commodities such as rice for their livelihoods. Collaboration and transparency can increase price stability on both domestic and international markets, and should be the cornerstones of efforts to prevent future crises.

## Further information

- **Dawe, D. (Ed):** *The Rice Crisis - Markets, Policies and Food Security*, FAO and Earthscan Publishing (2010)
- **Dawe, D.:** *Have Recent Increases in International Cereal Prices been Transmitted to Domestic Economies?* ESA Working Paper (2008)
- **FAO Food Outlook:** [www.fao.org/giews/english/fo](http://www.fao.org/giews/english/fo)

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