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THE PRESENT AND PROSPECTS FOR TRADE OF CHINESE RICE

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The Present and Prospects for Trade of Chinese Rice

Mr. Yu Xubo, Vice President of COFCO

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Mr. Chairman, ladies and gentlemen,

First I would like to thank the FAO for arranging COFCO to attend this rice conference for the International Year of Rice. Since its founding in 1952, China National Cereals, Oils & Foodstuffs Import & Export Corporation, better known as COFCO, has been engaged in the rice trade as a government-licensed agency for state trading. Today I feel much honored to represent COFCO and to be here with all of you to exchange information on the issue of world rice. Next, I would give you a brief introduction on China's rice trade.

China's rice production has remained stable in general, featuring basic self-sufficiency supplemented by regulation of individual variety supply and demand through export and import. China's rice trade dated back to 1952, the main purpose of which was to earn foreign exchange to import other grains like wheat. The volume then was only about 360,000 tons and only long grain early crop was exported, to such markets as Cuba, North Korea, Sri-Lanka and the former Soviet Union. Now China has become one of the world's top five rice exporting countries, with an annual export volume of over 2 million tons and covering the full range of varieties. For 2003, China exported a total of 2.62 million tons of rice, accounting for over 10% of last year's world rice trade. Varieties for export included round grain rice and long grain rice, with the former mainly to Japan, South Korea, the Middle East, Eastern Europe, and South Pacific Island states, and the latter mainly to Africa, Southeast Asia and some American countries.

Despite the output drop caused by numerous domestic natural disasters and the consequent severe domestic grain short supply for a period of time throughout the past five decades, the Chinese government has been able to overcome difficulties and has, through adjusting its foreign trade, managed to stick to its stable rice export policy and to maintain relatively stable export quantities to meet the demand from traditional markets for Chinese rice, thus contributing to world rice trade in an active and effective manner.

Before the 1990's, China's rice export averaged 1.065 million tons annually, accounting for 8-10% of the world trade volume (10-13 million tons), with long grain early crop as the main variety. After the 1990's, and especially since 1997, with vigorous government support, Chinese farmers have developed greater interest in planting crops, and China has experienced consecutive bumper harvests and ample government stock. An oversupply of grains lasted for a period, which has led China to increase rice export by a large margin. From 1997 to 2003, China's annual rice export averaged 2 to 2.5 million tons, accounting for about 10% of the world rice trade (25 million tons). The varieties for export also developed from low-grade long grain early crop to long grain late crop and round grain of specifications in full range. Flexible and various trading modes have been taken

according to specific international market situation to help us more actively participate in world rice trade on a level playing field, thus allowing us to play an important part in world trade.

For instance, Japan suffered a 24% drop in its rice output in 1993 due to a cool summer, and needed to buy 2.4 million tons of rice. It is known that the Japanese consumers only like round grain rice of high quality, and only China, US and Australia export such rice. Supply from US and Australia could merely satisfy 30 to 40 % of the Japanese demand, and the difference had therefore to be made up by China. Unfortunately, however, China happened to suffer from lower output and grain price hikes that year. In spite of this, China overcame its own difficulties, and exported 1.07 million tons of round grain quality rice from Northeastern China for the year 1993/1994, accounting for 45% of the Japanese rice import for that year.

In 1998, two other major rice importers ---Indonesia and the Philippines experienced rice short supply at the same time, and therefore needed to import about 8 million tons, thus leading to a seriously tight international market and causing the prices of long grain 25% broken to go up sharply from 220 USD/ton FOB to 280 USD/ton FOB. China reappeared on the stage of international rice at this critical moment. In 1998, China overcame the negative impact of the floods of the century that devastated a number of its provinces and supplied 3.74 million tons of rice to the international market. China exported a total of 2.7 million tons to Indonesia and the Philippines in 1998, making up the demand deficiency of the two countries in time, and also greatly easing the international shortage. It has led to many people in the trade to exclaim that if China had not exported rice in large quantities that year, there might have been a panic striking the international market and rice prices could have shot up to 500 USD/ton FOB.

Since 1999, China has been committed to tapping the rice market in Africa. During the recent years, China exported 1 to 1.5 million tons of quality but fair-value rice annually to Africa. Rice from China is popular and well regarded there due to its particular characteristic of swelling(after cooking it can get more rice than other origins), thus meeting the demand of low-income groups for grains, enlarging the consumption of rice to some extent and expanding world trade volume as a whole.

In recent years, China's rice output has remained relatively stable with slight declines, but as rice growing in some other major Asian rice producing countries outpaced the population growth, an oversupply began to hit the international market. The plummeting of international rice prices severely hurt the interests of farmers in major rice exporting countries, as well as their enthusiasm for planting crops. Against this backdrop, the Chinese government began to guide farmers in readjusting the crop varieties, expanding planting area of premium rice, and cutting down on the acreage of long grain early crop of poorer food quality. In 2003 for example, the total acreage of early crop was 5.577 million hectares nationwide, 5% less than the previous year, declining to one-fifth in its share of the nation's total rice planting area of the year. In contrast, planting area for premium early crop exceeded 4.5 million hectares, up 9% on the previous year, with its share in total early crop acreage of the year higher by 10% to reach 80%. The shortage of premium rice in the domestic market was alleviated.

Meanwhile, with the fast growth of the Chinese economy and the constant rise in the living standards of its general population, rice-processing technology has made great strides forward under the generous support of the government. Firstly, processing quality has been improved on a constant basis, with higher milling degree and development of more customer-pack refined rice, including nutrition-rich rice and washing-free rice. Secondly, down-stream processing and integrated utilization have been moving forward, with the launch of various higher value-added products such as the development and utilization of oryzanol, vitamin E, inositol, dietary fiber from rice etc. Thirdly, new and high technology is being increasingly used in grain processing, including low-temperature drying, selection of cargo rice, rice grading and blending. The improvement in the output of China's premium rice and the constant progress in rice processing technology have been conducive to enhancing the international competitiveness of rice from China, and make it possible for China's rice to advance to the international premium-price rice consumer market in the future.

Because of the adjustment of crop variety in planting and weather reasons in growing regions, the total grain output in 2003 was lower than the previous year. Recently, China's domestic grain prices began to pick up, but there will be no major fluctuations. In our view, as oversupply in the grain market is eased, it is only logical and normal for the hitherto consistently low prices of grains to regain lost ground in the market. Price rises will in turn greatly encourage farmers to plant more, and as a result planting area and output can be pretty rapidly restored to better levels within a relatively short period of time. Therefore, we think there is a limit to the room for domestic grain prices including rice prices to move further up.

Looking ahead at 2004, due to lower output and lower stock of last year, China's rice export quantity may be smaller, but like in the past, we will maintain a reasonable export level, hold steady to traditional markets, and focus on premium rice in terms of variety.

As for import, China is the world's largest rice consumer, with 60% of its population or more than 700 million people living on rice as their staple food. Although rice constitutes China's first largest grain, accounting for over 40% of the country's total grain output and being able to meet the general demand of its people in terms of aggregate quantity, there is still a gap between our own current production and the potential demand of domestic consumers for premium rice, which provides considerable space for international rice trade.

As China's largest trading company of agricultural commodities, COFCO plays the dual role of policy counsel for the government on agricultural issues and executing agency of the country's grain policies. During the past 5 decades, COFCO, as one of the key suppliers and customers, has made many friends and established extensive sales network and purchasing channels, has been faithfully honoring its contracts regardless of market changes, enjoying high prestige from overseas customers as a successful rice trader and an important player on the stage of international rice market. During the past 52 years, COFCO has exported and imported a total of 70.53 million tons of rice on an accumulative basis, at a total trade value approximating 14 billion USD. COFCO has,

through its relentless efforts in half a century, established an excellent brand name and image for Chinese rice in the international market place.

COFCO has in recent years transformed itself from a trade-only company into a trans-national conglomerate covering grain purchasing, processing and marketing. It is actively moving into the rice down-stream processing business by investing in state-of-the-art rice processing plants. One of these projects is China's first par-boiled rice plant, COFCO's joint venture with Jiangxi, one of the major rice-producing provinces, to respond to international demand for par-boiled rice. This plant is expected to go into operation in May 2004. It will help raise the technological level in this sector, enhance the value-added of the products, overcome the traditional defects in long grain rice processing such as high rate of broken kernels and low finishing ratio, thus opening new way for China's rice export. In the meantime, through this project we can help absorb the paddy rice grown in the 6,000 villages in the surrounding area, which will bring in steady and higher income for the 250,000 farmers in this otherwise poor region. This par-boiled rice plant marks only the first step in COFCO's venture into the grain down-stream processing area. In the coming years, COFCO will continue to pursue opportunities in these fields to improve production and export of premium rice, and to enhance the international competitiveness of Chinese rice.

It is China's established policy to address its grain supply and demand issue by mainly relying on domestic resources and achieving basic self-sufficiency. We have every reason to believe that with support from the government, by adopting advanced technologies, and taking advantage of China's natural endowments for growing rice, China can not only meet its own domestic demand, but also provide stable rice supply to the international market and deliver more and better varieties to our international consumers. We sincerely hope that in our future development we can work more closely together as we have always done with our dear colleagues in the world's rice community. Let us join hands and efforts to advance the prosperous development of world rice trade and to enable rice benefit more people.

Allow me to conclude by wishing this conference a complete success!

Thank you!