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FAO Rice Market Monitor
Basic Foodstuffs Service
Commodities and Trade Division
Food and Agriculture Organization of the United Nations

Contact or enquiries

Facsimile: ++(39-06) 570-54495
Telephone: ++(39-06) 570-54136
E-mail: Concepcion.Calpe@fao.org

Also available on the Internet at the following address:
http://www.fao.org/es/ESC/esce/escb/rice/monitore/ricemone.htm

HIGHLIGHTS

- The main season paddy crops are nearing maturation in many producing countries in the Northern Hemisphere, some of which have already engaged in harvesting. In the Southern Hemisphere, the 2002 season has drawn to a conclusion and preparations for the 2003 season are underway.

- FAO's forecast for paddy production in 2002 now stands at 588 million tonnes (393 million tonnes milled equivalent), over 6 million tonnes less than earlier anticipated and nearly 9 million tonnes below last season's revised outcome.

- According to the latest FAO forecast, 2002 paddy production in Asia could fall to 535 million tonnes, down from 543 million tonnes in 2001 and over 5 million tonnes below the previous forecast. The lowering of the outlook reflects downward revisions to production prospects in India, China, the Republic of Korea, Cambodia, the Philippines and Sri Lanka, which more than offset improved output expectations in Pakistan and Thailand.

- For the other regions, the production outlook for Africa has been lowered, reflecting adverse weather conditions in West Africa. However, the region as a whole, led by Egypt, remains on course to register a record output in 2002. In Latin America and the Caribbean, a 2 percent contraction is foreseen, mostly on account of a reduction to Brazil's harvest estimate. Similarly, in the United States and Australia, output is expected to fall from the previous year, by 3 percent and 28 percent, respectively.

- The international market for rice in 2002 has gathered momentum since the last note. FAO's latest trade forecast has been raised by almost 0.7 million tonnes to 25.7 million tonnes (calendar year, in milled equivalent), 1.7 million tonnes higher than in 2001. If realized, this would be the second time in history that world rice trade surpasses the 25 million tonne benchmark. The raising of global trade prospects reflects, in part, an increase in expected rice purchases by Nigeria, but mostly a strengthening of import demand in Asia, concentrated among a few countries, notably Indonesia and the Philippines. By contrast, China's anticipated rice purchases have been lowered to a level that translates to just 7.5 percent of its Tariff Rate Quota under the WTO agreement.

- Regarding exports in 2002, competition remains intense, with India expected to further increase its market share at the expense of traditional large exporters. According to current estimates, India is expected to supply 5 million tonnes, almost 20 percent of the expected volume of trade in 2002, compared to 7 percent in 2001. Expectations for rice exports by the United States and Uruguay have improved from the last note, but they have been lowered for Thailand and Myanmar. Export prospects for Viet Nam and Pakistan remain unchanged.

- As for world rice trade in 2003, forecasts are still very tentative as they are very much influenced by the size of 2002 crops, many of which have yet to be harvested. Current estimates put the volume of international transactions next year at 26.1 million tonnes, 2 percent more than in 2002 and up 400 000 tonnes from the previous forecast. The revision mainly reflects larger import requirements in the Philippines and in Nigeria.

- World rice stocks at the close of the crop seasons ending in 2003 are forecast to fall to a 15-year low of 131 million tonnes, since global rice consumption is expected to outpace production for the third consecutive year. This would represent a decline of about 19 million tonnes from their revised opening level and one of the largest within season contractions on record.

- For several months, international rice quotations from different origins and qualities have been subject to divergent trends, which have offset each other in the new FAO Total Export Price Index for Rice (1998-00 =100), keeping it unchanged at 73 points since July. In Thailand, the Government has begun selling rice from its reserves to exporters, to make room for new procurement purchases under its 2002/03 paddy intervention scheme. Much of these sales are reported to consist of high quality rice, which have contributed to recent falls in their export quotations. On the other hand, prices of the United States long grain 2/4 percent have climbed strongly in recent months and, for the first time since April this year, US rice quotations are showing a premium over the Thai 100% B. International prices for broken rice in the past few months have displayed some signs of convergence towards India's highly traded 25% quotations.

- The price outlook for the short-term appears somewhat mixed. On the positive side, improved global import prospects and policy procurement from farmers in Thailand have translated into stronger export quotations. On the negative side, however, the arrival of freshly harvested supplies in northern hemisphere countries over the next few months might have a bearish effect on prices, especially since major exporters still hold large rice inventories.

- Under Thailand's initiative, five major rice exporters, including China, India, Pakistan, Thailand and Vietnam agreed on 9 October 2002 to establish a Council on Rice Trade Cooperation (CRTC) to "stabilize" prices, exchange information and promote development endeavours.

RICE SITUATION UPDATE AS OF 15 OCTOBER 2002

I. PRODUCTION

Weather problems likely to take their toll on 2002 paddy output.

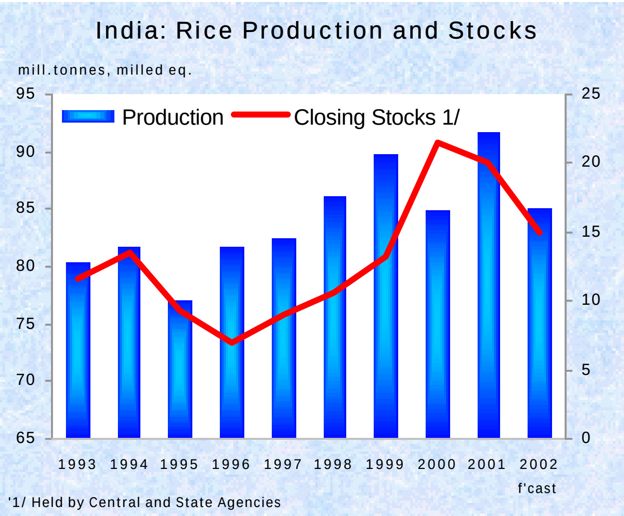
In the Northern Hemisphere, the main season paddy crops are nearing maturation in many producing countries, some of which have already engaged in harvesting. In the Southern Hemisphere, the 2002 season has drawn to a conclusion and preparations for the 2003 season are underway. FAO's forecast for paddy production in 2002 now stands at 588 million tonnes (393 million tonnes milled equivalent), over 6 million tonnes less than earlier anticipated and nearly 9 million tonnes below last season's revised outcome.

The lowering of the outlook mainly reflects a net downward revision to production prospects in Asia, led by India, China, the Republic of Korea and Cambodia, but the revision also reflects a downsizing of several harvests in Latin American and Caribbean countries.

I.1. ASIA

Paddy production for the region may contract by 8 million tonnes.

In **Indonesia**, the harvest of the main paddy crop has been completed and the second paddy season is underway. The Central Bureau of Statistics is still forecasting a paddy output of 50.8 million tonnes, up 300 000 tonnes from the revised 2001 total. In a bid to increase rice self-sufficiency, the Ministry of Agriculture has proposed a 15 percent rise in the paddy floor price to 1745 rupiah per kg (US$ 196 per tonne), pending approval by the Ministry of Finance. The floor price has been left unchanged since 2000, during which time the country has experienced an overall contraction in rice plantings. **Sri Lanka's** second paddy crop (Yala) is currently being harvested. A serious drought that persisted during the crop's maturation stage is expected to have an impact on yields. Accordingly, the production forecast has been lowered by 100 000 tonnes to 2.6 million tonnes, matching the 2001 level. The drought might also have implications for the country's 2003 main crop (Maha), the planting of which will shortly commence. The paddy outlook for **India** has deteriorated, following prolonged erratic monsoon precipitation during the planting and early-development stages of the county's main paddy crop. Improved weather conditions in the latter part of August and throughout September have, by and large, allayed fears of a crisis, since they might have encouraged farmers to replant. On balance though, the FAO forecast for paddy output in the country has been lowered by 6.5 million tonnes to 127.5 million tonnes (85 million tonnes on a milled basis), a decline of almost 10 million tonnes from the previous year. In **Bangladesh**, although flooding was reported in August, prospects for the country's rice production this year continue to be positive, with the paddy crop officially put at 39 million tonnes, 1.2 million tonnes higher than in 2001. This season's output has been underpinned by several factors, including the lifting of official procurement prices by 5 percent to 8 400 Taka (US$ 146) per tonne, improved usage of inputs and generally favourable growing conditions. In **Pakistan**, fears of a recurrence of the drought conditions that hindered production last season, are easing. Recent widespread rains have reportedly improved the condition of the new crop, the bulk of which should reach the market in November. Accordingly, the FAO forecast for paddy output in the country has been raised by 0.7 million tonnes to 5.9 million tonnes, 5 percent above the outcome of the previous year, but still well below the country's output potential under normal weather conditions.



In **China** (mainland), estimates of the early rice crop already completed point to an 8 percent decline from last year, owing to disruptive weather and the absence of government "protective prices" for this crop. Gathering activity is now being focused on the intermediate rice crop (the largest among the country's three rice crops), which is forecast to be 6 percent larger than last year. Preliminary forecasts for the late rice crop, on the other hand, foresee a 9 percent contraction. Overall, the official forecast for 2002 paddy production has been cut by 600 000 tonnes to 177.2 million tonnes, slightly less than last season, but the lowest since 1994. As for the **Chinese Province of Taiwan**, the forecast for paddy output in 2002 has been lowered by 100 000 tonnes to 1.6 million tonnes, which would stand as one of the lowest levels in the country's history. Recent weather problems are responsible for the downturn, but the decline is also consistent with the expectation of higher imports under WTO market access commitments.

Forecast output for **Thailand's** current paddy season has been revised up by 2 million tonnes to 27 million tonnes. The adjustment stems from an upward revision of the official production estimate for 2001 and a promising official outlook for this season's main crop, which is to be harvested between November and December. Widespread flooding in the country in early September is unlikely to have a major impact on the country's paddy output, since losses may be recouped by expanding plantings under the second paddy crop. During the November harvest period, the Government's paddy intervention scheme will commence, with procurement prices for fragrant rice raised to approximately 7 250 Baht (US$ 170) per tonne. Details of changes to the intervention prices for other varieties have not been reported to date. Consistent with its supportive stance towards the rice sector, the Government of Thailand has also put forward a five-year strategic plan, beginning 2002, to stabilise paddy prices and to improve rice infrastructure, including the construction of paddy silos. **Myanmar** remains on course to reach a record paddy output of 22.2 million tonnes in 2002. The forecast output expansion is supported by the Government's concerted drive to increase rice exports. In the **Philippines**, bw farm-gate prices in the past season may have precipitated a shift out of rice, reflected in estimated lower plantings in 2002. However, unfavourable weather conditions earlier in the year are likely to have had more of a curtailing effect on rice cultivation. In this regard, delays to planting of the country's third rice crop may expose part of this crop to the El Niño phenomenon, predicted to arrive during the coming months. Accordingly, the forecast for 2002 paddy production has been lowered to 12.6 million tonnes, 300 000 tonnes less than previously anticipated, and 500 000 tonnes down from the record crop of the previous season. Contrasting weather extremes in **Cambodia** have disrupted paddy cultivation in the country. First, a serious drought affected new plantings of the wet-season crop, which was later followed by severe flooding problems. Area losses of this crop have been estimated by officials to be in the order of 100 000 hectares. In an attempt to prevent shortages, the Government has proposed to increase by 200 000 hectares the irrigated area under the dry-season crop, which will be planted in November, once the wet crop is harvested. Thus, on balance, total paddy output in 2002 is officially forecast to reach 4.1 million tonnes, 600 000 tonnes lower than previously envisaged, but similar to the level of 2001. In **Viet Nam**, the paddy season is drawing to an end with the harvest of the country's third and final crop (10th month crop), expected to peak shortly. Weather vagaries earlier in the year have cast some doubt on overall paddy prospects for the country, but given the performance of this season's harvested crops, the country remains on track to realize the official forecast of 32.3 million tonnes in 2002.

Favourable growing conditions were reported in **Japan** as of August, with the status of the crop rated above normal in most of the rice districts. Output, however, is still forecast at 11 million tonnes, down 300 000 tonnes from last year, mainly on account of a policy induced decline in plantings. The FAO forecast for 2002 paddy output in the **Democratic People's Republic of Korea** country's has been revised up by 100 000 tonnes to 2.1 million tonnes, matching the level of the previous year. Pending further information, the forecast does not account for possible losses arising from a typhoon that hit the Korean Peninsula at the end of August. In the **Republic of Korea**, the forecast for 2002 paddy production has been lowered by 500 000 tonnes from the last report to 6.8 million tonnes, implying a 9 percent fall from 2001 output. The revision partly reflects lower expected yields from recent bad weather, but mainly on account of policy measures, recently formalised in the Government's paper: "Comprehensive Plan on the Rice Industry". The plan, which comes into effect this season, is designed to reduce the country's large rice surpluses, while pre-empting the liberalization of the country's rice sector at the beginning of 2005. Measures include a targeted overall 12 percent reduction of the area under rice, via reduced price supports and crop diversification, coupled with a direct payment scheme to compensate for the income losses, and a shift towards the production of higher quality rice varieties. Furthermore, domestic rice prices, which are currently very high, are to be lowered through the market mechanism.

Recent FAO/WFP missions to **Afghanistan** and **Tajikistan** report that a return to normal precipitation levels could boost yields of rice crops in both countries. Rice production is forecast to double in the former country and to reach a record level in the latter.

I.2. AFRICA

Weather problems and civil unrest in West Africa unlikely to undermine a forecast output expansion for the region

In **Egypt**, the main producer in Africa, the paddy crop is expected to be harvested in September. The country remains on course to produce a record level of paddy this year of 6.1 million tonnes, reflecting an officially estimated 17 percent expansion in rice area. Much of this expansion has been fostered by high paddy prices last season.

Below normal rainfall has lowered the outlook for several paddy crops in West Africa, particularly in **Mali** and, to some extent, in **Senegal, Burkina Faso** and **the Gambia**. The bulk of West Africa's paddy crops is expected to be harvested in October, and despite weather problems, the sub region is expected to gather a crop in 2002 of 7.6 million tonnes, just short of the record achieved last season. In **Nigeria**, a three-year strategy to reach rice self-sufficiency has been announced, in which improvements to irrigation infrastructure and other investments in the country's rice sector are being reviewed. Forecast paddy output in the country stands unchanged at 3.5 million tonnes, slightly higher than last year. Prospects in **Côte d'Ivoire** and **Liberia** are highly uncertain, owing to civil conflicts in both countries. The two countries are now in the process of harvesting their main crops. Pending further information on their impact, the 2002 paddy forecast for Côte d'Ivoire stands at 1 million tonnes, while for Liberia, the forecast of 190 000 tonnes remains.

In southern and eastern Africa, the 2002 paddy season is virtually over and expectations still point to a combined contraction of 300 000 tonnes.
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I.3. LATIN AMERICA AND THE CARIBBEAN

Regional contraction in output attributed to a lower harvest estimate for Brazil

Harvesting of the 2002 main paddy crops has been completed in most countries of the South America. Aggregate paddy output is now estimated to decline by 2 percent from last year to 19.5 million tonnes, 0.5 million tonnes lower than previously forecast. The revision mainly reflects a downsizing of **Brazil's** harvest by almost 400 000 tonnes to 10.7 million tonnes, owing to an unanticipated fall in rice plantings, but it also reflects area losses in **Guyana**, following abnormally high precipitation during the planting stage.

Harvesting of the 2002 paddy crops in Central America has begun. Despite a timely arrival of rains, several countries in the region, notably Costa Rica and **El Salvador**, endured persistently dry weather during planting and early crop development. Consequently, 2002 production is expected to fall by a combined 25 000 tonnes. Industry sources in **Cuba** are anticipating a marginal increase in private paddy output, with the output from state-owned farms stagnating since again only one-third of allotted rice area has reportedly been seeded. Overall, paddy production for the country has been revised down by 59 000 tonnes to 281 000, but this would still imply a moderate increase from the previous year.

The 2003 season is just underway in several major producing countries in Latin America, including **Argentina, Brazil** and **Uruguay**. While general economic instability shrouds much of the region, there is increasing uncertainty about the prospects for several of the new crop seasons, with reports of credit restrictions in Argentina and a switch out of rice cultivation in Brazil.

I.4. NORTH AMERICA

2002 output expectations improve

By early October, over half of the paddy crop had been harvested in the United States. The late-maturation stage of the country's crop has benefited from some favourable weather conditions, and the latest Government estimate now puts output at around 9.4 million tonnes, 100 000 tonnes up from its last release, but 300 000 tonnes below the bumper crop of the previous year.

I.5. EUROPE

Production to remain stable in the EU, but a lower outlook for Russia

Harvesting of the 2002 paddy crops is underway in the **European Union**. There had been some disruption at the beginning of the rice seasons in Italy, France and Spain owing to adverse weather conditions, but since plantings in Italy appear to have exceeded earlier expectations, estimates of 2002 EU paddy production remain at 2.6 million tonnes, unchanged from last year. The estimate of this season's rice production in the **Russian Federation** has been reduced marginally following the release of lower official estimates for plantings. As a result, the output forecast is now set at 480 000 tonnes, 35 000 tonnes less than last anticipated and some 20 000 tonnes below last year's crop.

I.6. OCEANIA

A highly uncertain 2003 paddy season lies ahead for Australia

The updated assessment of the rice crop in **Australia**, which was gathered in May, confirms an output of 1.3 million tonnes, 500 000 tonnes below last season's harvest. The country's 2003 paddy season appears set to commence under severe drought conditions. Planting normally takes place during October, but officials are already anticipating that water shortages will result in delays and possible a sharp reduction in rice acreage.

II. RICE TRADE IN 2002

World rice trade to surpass the 25 million tonne benchmark

The international market for rice in 2002 has gathered momentum since the last report. Fears of impending crop shortfalls, particularly in Asia, have intensified, while in Africa, higher than anticipated domestic requirements are likely to fuel additional imports. Accordingly, FAO's latest trade forecast has been raised by 0.7 million tonnes to 25.7 million tonnes (calendar year, in milled equivalent), 1.7 million tonnes higher than in 2001. If realized, this would be the second time in history that world rice trade surpasses the 25 million tonne benchmark.

II.1. IMPORTS

As the assessment of the size and quality of the main paddy crops harvested this season becomes more concrete and information on actual rice shipments is made available, some revisions to the expected volume of rice trade this year have been effected for a number of countries.

Beginning with Asia, forecast imports by the Philippines have been raised by 300 000 tonnes to 1.2 million tonnes, 20 percent more than in 2001 following the deterioration of paddy output prospects in the country. The Republic of Korea has decided to resume its aid shipments of rice to the People's Democratic Republic of Korea, which it suspended following the naval conflict between the two countries in July. Accordingly, anticipated rice imports by the latter have been raised to 700 000 tonnes, almost 100 000 tonnes higher than in the previous year. Estimated rice imports by Sri Lanka have been sharply raised in response to a deterioration of the country's current harvest prospects. The country now appears set to purchase 140 000 tonnes, compared to an official level of 50 000 tonnes in 2001. Shipments to Indonesia remain forecast at 3.2 million tonnes, twice more than imported in 2001. Another proposal to raise the tariff on imported rice, this time from 430 to 750 Rupiah per kg (US$ 48 to 84 per tonne) has recently been put forward by agricultural officials. In the course of the year, several such proposals have been made, with little success since the Government has remained concerned about the inflationary impact an increased tariff would have on the domestic market. For other major rice importing countries in the region, anticipated deliveries to China remain forecast at 400 000 tonnes, well below the country's tariff rate quota, while Japan is still expected to import 650 000 tonnes of rice in 2002, fulfilling its preferential access quota commitment for the second successive year; and deliveries to Malaysia are expected to reach over 600 000 tonnes in the year, similar to the amount imported in 2001. Regarding Near East countries, which account for roughly one-fifth of world rice trade, anticipated imports by the Islamic Republic of Iran stand at 1.2 million tonnes, 20 percent above 2001, while deliveries to Iraq and Saudi Arabia, both remain unchanged from the previous year at 1.2 million tonnes and 825 000 tonnes, respectively.

Expectations for 2002 rice deliveries to Africa, the world's second largest rice-importing region behind Asia, have been lifted by 300 000 tonnes since the last report. The region now looks set to import 6.7 million tonnes in 2002, 6 percent lower than the record of last year. The revision mostly reflects additional purchases of parboiled rice by Nigeria, which would bring expected rice imports by the country to 1.5 million tonnes, slightly below the record volume imported in the previous year. For other regions, little or no change to previous expectations is envisaged. In Latin America and the Caribbean, predicted crop shortfalls in some countries are not expected to induce higher rice imports until next year, while Europe's and North America's estimated rice import requirements remain virtually unchanged from 2001.

II.2. EXPORTS

With regard to rice exports in 2002, competition for international market shares has intensified, with India forecast to make further inroads at the expense of traditional large exporters.

In Thailand, rice shipments for the first seven months of the calendar year are estimated to be around 3.5 million tonnes, compared to a figure of 3.7 million tonnes in the previous year. Accordingly, forecast exports by the country in 2002 have been lowered by 500 000 tonnes to 7 million tonnes. Similarly, based on the pace of shipments to date, Myanmar's forecast rice exports in 2002 have been lowered by 100 000 tonnes since the last report. However, the country remains on course to reach the benchmark in export performance of 1 million tonnes. China's (mainland) sales throughout July also point to a sharp fall in 2002 export performance, with shipments over this period down 30 percent compared with the same period in 2001. Such a contraction reflects to a large extent increased competition from cheaper exporters in China's traditional markets in Africa. Exports by the country remain forecast to reach 1.3 million tonnes, down 500 000 tonnes from the previous year.

India's expected rice deliveries in 2002 are now forecast at a record 5 million tonnes, an increase of 800 000 tonnes from the previous report and 3.1 million tonnes above the 2001 level. The recent deterioration in production prospects for the current season is not expected to induce a major shift in the country's export policy, as supplies of rice in stocks held by the Food Corporation of India (FCI) are still very large. However, a few changes have been announced, that might erode somewhat the price advantage of India's higher quality rice on international markets. This concerns the obligation for traders to export a volume equivalent to at least 98 percent of the quantity they purchased from FCI stocks at particularly low prices. Such a requirement would force those traders who processed the rice with the purpose of reducing the percentage of brokens to make up for the removed grains by purchasing the differential on the open market, at higher prices.

In the United States, the USDA has upgraded its forecast for 2002 rice shipments by 300 000 tonnes to 3.1 million tonnes, 22 per cent higher than the volume exported last year, as attractive quotations from the country and food aid programme commitments are supporting export growth. According to official sources, rice deliveries by Uruguay in 2002 are expected to reach 570 000 tonnes, up 25 percent from the previous estimate, but performance is still expected to fall short of last year's outcome. As for other major exporters, forecast shipments are unchanged from the last report, with Pakistan and Australia anticipated to record a strong contraction, while

Argentina is expected to maintain exports and Egypt to raise them substantially from the previous year.

III. RICE TRADE IN 2003

Further expansion in rice trade foreseen in 2003

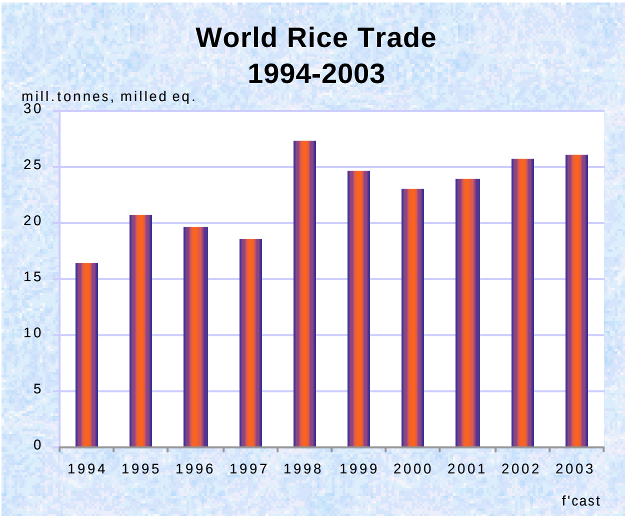
Early indications are for the volume of world rice trade to rise by 2 percent to 26.1 million tonnes in 2003. This would be about 400 000 tonnes more than previously anticipated. The forecast is still highly tentative, since many of the countries that could influence the level of global trade, have yet to harvest their crops.

III.1. IMPORTS

The lifting of the 2003 global forecast mainly reflects upward adjustments to import requirements in the Philippines and in Nigeria. In the former country, a lowering of anticipated domestic availabilities could imply an additional 200 000 tonnes of rice imports, bringing the 2003 total to 1.5 million tonnes, similar to the level estimated for 2002. The forecast, however, does not take into account the possible effects of the liberalization of the Philippines' import regime, proposed in 2003. In Nigeria, the growth in consumption is forecast to outpace that in production which might lead to the country importing 1.5 million tonnes of rice in 2003, some 300 000 tonnes higher than previously forecast, and again matching the estimated volume of imports in 2002.

Moderate increases in import requirements are forecast for a number of countries that suffered or are anticipated to suffer relatively poor harvests during the current season, including several countries in South and Central America (particularly Colombia and El Salvador) and some countries in Africa (notably Mali). By contrast, owing to brighter crop prospects, Afghanistan's rice imports in 2003 are now forecast to reach only 60 000 tonnes, compared to an expected level of 270 000 tonnes in 2002.

Regarding other traditional importers, Indonesia remains set to import 3.2 million tonnes in 2003, the same level anticipated in 2002. However, if the Government adopts the proposal to raise border protection, this figure could be less.



III.2. EXPORTS

As for exports, India may ship 4.5 million tonnes of rice in 2003, 200 000 tonnes lower than anticipated in the last report, but still an excellent export performance by the country's standards. The 2003 forecast is highly dependent on the final outcome of the current weather-hit crop and on the maintenance of the FCI supportive export policy.

Forecast rice deliveries by Australia in 2003 by have been cut by 33 percent to a twelve-year low of 400 000 tonnes. The anticipated sharp fall in performance reflects reduced export supplies from an expected drought-hit 2003 crop. By contrast, rice exports by Pakistan in 2003 are now forecast at 1.4 million tonnes, 400 000 tonnes up from the last report, following an improvement in this season's production prospects. Upward revisions to export forecasts from the last report have been effected for China (200 000 tonnes) and for the United States (200 000 tonnes). For other major rice exporters, Thailand, Viet Nam, Myanmar and Uruguay are still forecast to increase shipments from 2002 levels, while Egypt is forecast to maintain exports in 2003 at the current predicted volume.

Council on Rice Trade Cooperation

On 9 October 2002, under Thailand's initiative, five among the largest exporting countries, including China, India, Pakistan, Thailand and Vietnam, agreed to establish a Council on Rice Trade Cooperation (CRTC) to "stabilize" prices, exchange information and promote development endeavours.

International Commodity Agreements (ICAs) with price objectives were popular in the late 1970s and 1980s. Today, all the existing ICAs (coffee, cocoa, grains and sugar) have abandoned their economic clauses and are mainly aimed at improving the functioning of their commodity markets, through the collection and provision of information, product and market development, enhancement of market transparency, etc..

International Commodity Agreements (ICAs) can stabilize prices either through export restricting arrangements (minimum export prices, export taxes or quotas) or international stock management. The main conditions for success[1] in achieving such objective are:

- participating countries should account for a large share of world exports
- import demand for the product should be inelastic
- the elasticity of export of non-participating countries should be low
- price target should not be too ambitious
- members should have a large degree of commitment.

To be consistent with WTO, ICAs should meet certain conditions listed in Article 60d of the Havana Charter, Article XX(h) of GATT94 and the analytical Index of GATT. In particular, Article 60d of the Havana Charter sets provisions for adequate participation of importing countries and tight safeguards for importers on prices and decision taking powers, if the Agreement involves market intervention. Article 63 states that strong ICAs should be designed: to assure the availability of supplies at all times ... at prices that are stable, fair to consumers and remunerative to producers; importers and exporters should have generally the same voting powers.

[1] Based on a paper by James Greenfield "International Commodity Market Policies" presented in Rome, at the Consultations on Agricultural Commodity Prices (25-26 March 2002)

IV. STOCKS

2003 ending global rice inventories forecast to fall to a 15-year low but major exporter carryovers still high

World rice stocks at the close of the crop seasons ending in 2003 are forecast to fall to a 15-year low of 131 million tonnes, since global rice consumption is expected to outpace production for the third consecutive year. This would represent a decline of about 19 million tonnes from their revised opening level and one of the largest within season contractions on record.

Again, much of the global drawdown is forecast to be concentrated in China (down 12.1 million tonnes), where it will be required to bridge the foreseen gap between production and consumption, and in India (5.3 million tonnes), in the face of the anticipated crop shortfall in 2002 and expected strong international sales in 2003. By contrast, rice carryovers are foreseen to remain very large in the other major exporting countries, including Viet Nam, Thailand, Myanmar and the United States. Several major importers, including Indonesia, Brazil and the Philippines, are also likely to reduce their stocks somewhat to cover their domestic requirements.

V. INTERNATIONAL PRICES

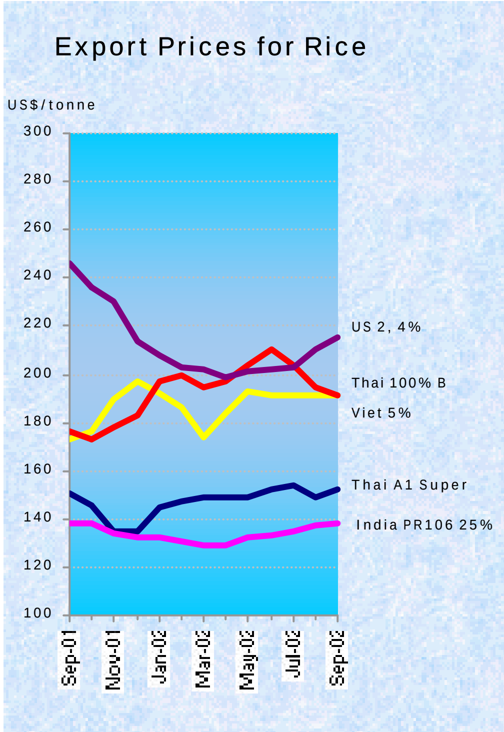
A mixed outlook for international prices

For several months, international rice quotations from different origins and qualities have been subject to divergent trends, which have offset each other in the new FAO Total Export Price Index for Rice (1998-00 =100), keeping it unchanged at 73 points since July.

In Thailand, the Government has begun selling rice from its reserves to exporters, to make room for new procurement purchases under its 2002/03 paddy intervention scheme. Much of these sales are reported to consist of high quality rice, which have contributed to recent falls in their export quotations. For instance, prices of the Thai 100% B dropped by an average US$ 12 from July to US$ 191 per tonne in September. On the other hand, prices of the counterpart United States long grain 2/4 percent climbed by US$ 12 over this period to US$ 215 per tonne. This was the first time since April this year, that US rice quotations were showing a premium over the Thai 100% B. The overall effect of diverging trends for high quality rice from different origins was minimal on the FAO's High Quality Indica Price Index, which dropped only 1 point from July to 73 points.

Similarly, FAO's Low Quality Indica Price Index has fallen by 1 point to 76 points between July and September, as prices for broken rice in major exporting countries have tended to converge towards India's 25 percent quotations, which, at US$ 138 per tonne, remain very competitive. FAO's Japonica Price Index has fluctuated in recent months, but overall, it has declined by 1 point since July, reflecting a US$ 23 per tonne dip in prices of the United States medium grain 2/4 percent in September. Finally, Basmati prices have staged a strong recovery, as reflected in FAO's Aromatic Price Index, which rose from 78 points in July to 83 points in September. The increase was mainly on account of the change in India's export specifications, discussed in the previous report.

The price outlook for the short-term appears somewhat mixed. On the positive side, improved global import prospects and policy procurement from farmers in Thailand might translate into stronger export quotations, a momentum that could be underpinned by the recent launching of the Council on Rice Trade Cooperation by major exporters (see box). On the negative side, new supplies from northern hemisphere countries are expected to peak over the next few months, which will have a bearish effect on prices, especially since major exporters still hold large rice inventories.



The new FAO Export Price Index for Rice

This month sees the launch of the new FAO Export Price Index for Rice (1998-2000=100). The previous index employed the Laspeyres formula, under which prices were weighted according to their importance in global trade in the base period (1982-84=100). Until recently, this index was considered to provide a satisfactory measure of relative movements in export prices. However, important changes in the structure of international trade have taken place, including major shifts in the market shares of different exporters and in the types of rice traded. In addition several new rice exporters have emerged on the global arena. While the new rice price index takes stock of these market developments, it also gives consideration to some theoretical advances in the treatment of index numbers.

A complete exposition will be published in the forthcoming FAO “Review of Market Issues”. However, a summary of its main features is as follows:

- the base period is now set over the **1998-2000** three year average;
- the new index is divided into three broad market groups defined by rice variety: **indica**, **japonica**, and **aromatic** (comprising basmati and fragrant rice), with indica subdivided into high and low quality rice. The sub-indices were selected in accordance with the “Generalized Composite Commodity Theorem” (GCCT);
- **sixteen export quotations** are employed by the new index, one more than previously. The prices used in the construction of each sub index are:

High Quality Indica	**Low Quality Indica**	**Japonica**	**Aromatic**
Thai 100% B	Thai A1 Super	United States 2/4	Pakistan Basmati
United States 2/4	Pakistan Irri 25%	Australian Calrose	India Basmati
Pakistan IRRI 10%	India PR-106 25%	United States 2/4-73 (husked)	Thai Fragrant 100% B
Viet Nam 5%	Viet Nam 25%		
United States Parboiled 2/4			
Thai Parboiled 100% B			

- owing to the properties of the GCCT, the sub-indices do **not** employ weights, however, the “total” index uses the Laspeyres formula, in which the sub-indices are **weighted** according to their corresponding trade shares in the base period. Indica and japonica are jointly assigned a weight of 90 percent and aromatic is assigned a weight of 10 percent.

Verification of the new index

Prior to implementation, the new indices were verified on two accounts. Firstly, by ensuring their consistency with historical trends in international rice prices, and secondly comparing price movements with the previous (1982-84=100) indices.

The new Total index appears to capture the major developments in rice prices as shown in Figure 1, in that it corroborates the general downward trend in rice prices that began in the mid 1990s, and that it is sufficiently sensitive to convey the market turbulence experienced in the early 1990s. A comparison of the Total index with its predecessor reveals that owing to lower base-year prices, the level of the new index is lower, but both appear aligned in terms of price movements. Figure 2 confirms this tendency, with the indices changing in a similar direction and by a similar magnitude.

The FAO Export Price Index for Rice will be regularly monitored to ensure that it continues to provide a satisfactory indicator of international rice price movements.

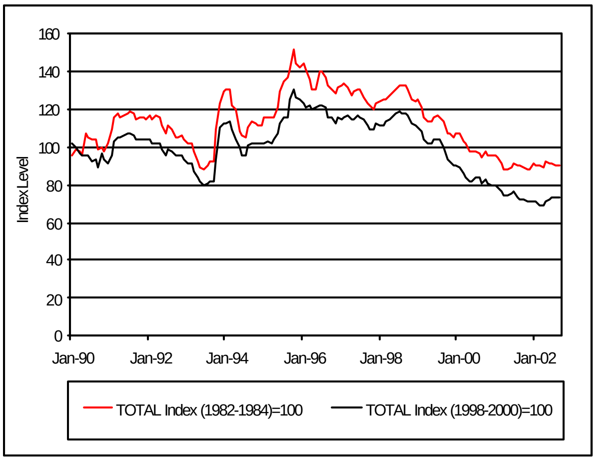


Figure 1 Total Index (levels): monthly Jan-90 to Sep-02

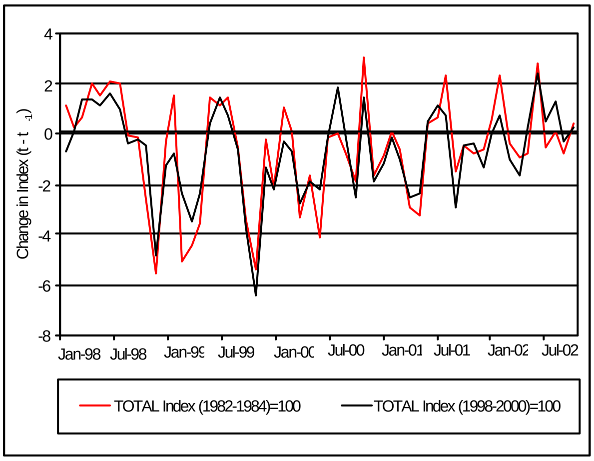


Figure 2 Total Index (changes): monthly Jan-98 to Sep-02

EXPORT PRICES FOR RICE

	Thai 100% B 1/	U.S. 2/4% Long grain	Viet 5%	Thai 25%	India 25%	Viet 25%	Pak 25%	Thai A1 Super 2/	U.S. 2/4% Medium Grain 3/	Pak Basmati 4/	Thai Fragrant 100%
	US $/tonne, f.o.b.										
1997	**316**	**439**	**256**	**256**	**252**	**224**	**218**	**214**	**416**	**458**	**458**
1998	**315**	**413**	**288**	**258**	**243**	**255**	**241**	**215**	**412**	**492**	**492**
1999	**253**	**333**	**228**	**215**	**237**	**204**	**206**	**192**	**405**	**486**	**486**
2000	**207**	**271**	**183**	**172**	**232**	**159**	**163**	**143**	**289**	**418**	**418**
2001	**177**	**264**	**166**	**153**	**185**	**148**	**148**	**135**	**256**	**332**	**332**
2001											
September	176	246	173	159	138	152	158	151	254	338	241
October	173	236	176	154	138	158	155	146	254	338	253
November	178	230	190	153	134	170	146	135	254	363	238
December	183	214	197	157	132	185	144	135	244	350	252
2002											
January	197	208	192	169	132	177	150	145	231	347	254
February	200	203	186	169	131	167	148	147	222	350	267
March	195	202	174	166	129	158	148	149	212	356	268
April	197	199	184	167	129	166	152	149	206	358	271
May	204	201	191	174	132	173	163	149	206	362	285
June	210	202	191	178	133	168	175	152	208	371	326
July	204	203	191	177	135	166	174	154	231	377	362
August	195	210	191	170	137	168	166	149	231	390	344
September	191	215	191	170	138	171	160	152	213	396	353
2001 Jan.-Sep.	177	276	159	152	204	141	148	134	257	326	285
2002 Jan.-Sep.	199	205	188	171	133	168	160	149	218	367	303

Sources: Jackson Son & Co. (London) Ltd. and other public sources.

1/ White rice, 100% second grade, f.o.b. Bangkok. 2/ White brokens rice. 3/ F.A.S. basis. 4/ Basmati ordinary, f.o.b. Karachi.

FAO Rice Price Indices

		All	Indica		Japonica	Aromatic
			High	Low		
		1998-2000 = 100				
1997		**114**	**117**	**110**	**115**	**117**
1998		**115**	**117**	**115**	**113**	**113**
1999		**101**	**99**	**101**	**105**	**98**
2000		**84**	**84**	**83**	**83**	**89**
2001		**74**	**74**	**74**	**76**	**69**
2001	September	73	74	73	73	67
	October	72	73	73	73	66
	November	71	72	71	71	66
	December	71	72	73	70	66
2002	January	72	73	74	71	66
	February	71	72	72	68	67
	March	69	69	71	67	68
	April	69	71	73	64	69
	May	72	73	75	67	71
	June	72	74	77	64	75
	July	73	74	77	68	78
	August	73	73	75	69	80
	September	73	73	76	67	83
2001	Jan.-Sep.	75	75	75	78	70
2002	Jan.-Sep.	72	72	74	67	73

Source: *FAO*

WORLD PADDY PRODUCTION

	2000	2001 (estimated)	2002 (forecast)
	million tonnes		
WORLD	**598.8**	**597.3**	**588.4**
Developing countries	573.5	571.0	563.1
Developed countries	25.3	26.3	25.4
ASIA	**544.9**	**543.4**	**535.0**
Bangladesh	37.6	37.8	39.0
Cambodia	4.0	4.1	4.1
China 1/	189.8	179.3	178.8
India	127.3	137.4	127.5
Indonesia	51.9	50.5	50.8
Iran, Islamic Rep. of	2.0	1.7	2.0
Japan	11.9	11.3	11.0
Korea Rep. of	7.2	7.5	6.8
Myanmar	21.3	21.8	22.5
Pakistan	7.2	5.6	5.9
Philippines	12.5	13.1	12.6
Sri Lanka	2.9	2.7	2.7
Thailand	25.6	27.0	27.0
Viet Nam	32.5	32.0	32.3
AFRICA	**17.4**	**17.2**	**17.9**
North Africa	**6.0**	**5.3**	**6.1**
Egypt	6.0	5.2	6.1
Sub-Saharan Africa	**11.4**	**12.0**	**11.8**
Western Africa	7.3	7.6	7.6
Côte d'Ivoire	1.0	1.1	1.0
Guinea	0.9	0.8	0.8
Mali	0.7	0.8	0.8
Nigeria	3.3	3.4	3.5
Central Africa	0.4	0.4	0.4
Eastern Africa	1.0	1.1	1.0
Tanzania	0.8	0.8	0.8
Southern Africa	2.6	2.9	2.7
Madagascar	2.3	2.6	2.4
Mozambique	0.2	0.2	0.2
CENTRAL AMERICA	**2.5**	**2.3**	**2.2**
Mexico	0.4	0.2	0.3
SOUTH AMERICA	**21.0**	**19.8**	**19.5**
Argentina	0.9	0.9	0.7
Brazil	11.4	10.4	10.7
Colombia	2.3	2.1	1.9
NORTH AMERICA	**8.7**	**9.7**	**9.4**
United States	8.7	9.7	9.4
EUROPE	**3.2**	**3.2**	**3.2**
EC 2/	2.5	2.6	2.6
OCEANIA	**1.1**	**1.8**	**1.3**
Australia	1.1	1.8	1.3

WORLD IMPORTS OF RICE

	2001	2002 (estimated)	2003 3/ (forecast)
	million tonnes, milled		
WORLD	**24.0**	**25.7**	**26.1**
Developing countries	20.2	21.8	22.3
Developed countries	3.8	3.9	3.9
ASIA	**11.5**	**13.7**	**13.9**
Bangladesh	0.4	0.2	0.2
China 1/	0.3	0.4	0.8
Indonesia	1.5	3.2	3.2
Iran, Islamic Rep. of	1.0	1.2	1.2
Japan	0.6	0.7	0.7
Malaysia	0.6	0.6	0.7
Philippines	1.0	1.2	1.2
Saudi Arabia	0.8	0.8	0.8
Sri Lanka	0.1	0.1	0.1
AFRICA	**7.2**	**6.7**	**6.8**
Côte d'Ivoire	1.1	0.9	0.9
Nigeria	1.6	1.5	1.5
Senegal	0.6	0.6	0.6
South Africa	0.6	0.6	0.6
SOUTH AMERICA	**1.1**	**1.0**	**1.1**
Brazil	0.7	0.7	0.7
Peru	0.1	0.1	0.1
NORTH & C. AMERICA	**2.3**	**2.3**	**2.4**
Mexico	0.5	0.5	0.5
EUROPE	**1.6**	**1.6**	**1.6**
EC 2/	0.7	0.7	0.7
OCEANIA	**0.3**	**0.4**	**0.4**

WORLD EXPORTS OF RICE

	2001	2002 (estimated)	2003 3/ (forecast)
	million tonnes, milled		
WORLD	**24.0**	**25.7**	**26.1**
Developing countries	19.9	21.3	21.9
Developed countries	4.1	4.4	4.2
ASIA	**18.4**	**19.7**	**20.2**
China 1/	2.0	1.4	1.0
India	1.9	5.0	4.5
Myanmar	0.6	1.0	1.5
Pakistan	2.3	1.4	1.4
Thailand	7.5	7.1	7.5
Viet Nam	3.5	3.0	3.4
AFRICA	**0.8**	**0.9**	**0.9**
Egypt	0.8	0.9	0.9
SOUTH AMERICA	**1.4**	**1.2**	**1.4**
Argentina	0.3	0.3	0.3
Uruguay	0.7	0.6	0.7
NORTH AMERICA	**2.6**	**3.1**	**3.1**
United States	2.5	3.1	3.1
EUROPE	**0.2**	**0.2**	**0.2**
EC 2/	0.2	0.2	0.2
OCEANIA	**0.7**	**0.6**	**0.4**
Australia	0.7	0.6	0.4

FOOTNOTES:
Totals computed from unrounded data.
1/ Including Taiwan Province.
2/ Fifteen member countries.
3/ Tentative.

RICE : Estimated Supplies and Utilization in the Main Exporting Countries. (National Crop Years)

	UNITED STATES (Aug./Jul.)			THAILAND 2/ (Nov./Oct.)		
	2000/2001	**2001/2002** prelim.	**2002/2003** f'cast	**2000/2001**	**2001/2002** prelim.	**2002/2003** f'cast
	(......... thousand tonnes ....)			*(......... thousand tonnes ....)*		
Open.Stocks	867	887	1219	1660	1800	2600
Production 1/	5939	6668	6456	16953	17844	17874
Imports	339	416	416	0	0	0
Tot.Supply	7145	7971	8091	18613	19644	20474
Domestic Use	3669	3779	3944	9292	9944	10144
Exports	2589	2973	2973	7521	7100	7500
Clos.Stocks	887	1219	1174	1800	2600	2830

	CHINA 2/ 3/ (Jan./Dec.)			PAKISTAN 2/ (Nov./Oct.)		
	2000/2001	**2001/2002** prelim.	**2002/2003** f'cast	**2000/2001**	**2001/2002** prelim.	**2002/2003** f'cast
	(......... thousand tonnes ....)			*(......... thousand tonnes ....)*		
Open.Stocks	112902	106500	93600	1080	940	520
Production 1/	130109	122901	122571	4810	3747	3935
Imports	294	410	750	0	0	0
Tot.Supply	243305	229811	216921	5890	4687	4455
Domestic Use	134801	134821	134411	2688	2767	2835
Exports	2004	1390	1020	2262	1400	1400
Clos.Stocks	106500	93600	81490	940	520	220

	VIET NAM 2/ (Nov./Oct.)			TOTAL		
	2000/2001	**2001/2002** prelim.	**2002/2003** f'cast	**2000/2001**	**2001/2002** prelim.	**2002/2003** f'cast
	(......... thousand tonnes ....)			*(.......... million tonnes ....)*		
Open.Stocks	3100	4020	4500	119.6	114.1	102.4
Production 1/	21698	21324	21544	179.5	172.5	172.4
Imports	2	2	2	0.6	0.8	1.2
Tot.Supply	24800	25346	26046	299.8	287.5	276.0
Domestic Use	17311	17846	18146	167.8	169.2	169.5
Exports	3469	3000	3400	17.8	15.9	16.3
Clos.Stocks	4020	4500	4500	114.1	102.4	90.2

Footnotes:
Totals computed from unrounded data.
For the forecast year figures refer to export availabilties and import requirements.
1/ Milled basis.
2/ Rice trade data refers to the calendar year of the second year shown.
3/ Including Taiwan province.