Rice Market Monitor

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FAO Rice Market Monitor
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HIGHLIGHTS

- Since its last assessment, FAO has raised its forecast of world paddy production in 2003 by about 800 000 tonnes to 593 million tonnes, mainly reflecting an improved outlook for China. Adjustments were also made to the official estimates of production last year. So, based on current prospects for 2003 and a revised figure for 2002, global paddy production is anticipated to rise by 3 percent, or 18 million tonnes.

- Much of the growth should be concentrated in Asia, where production is expected to recover from the poor outcome last year, when erratic monsoon rains wreaked havoc to the sector in large parts of the region. In the rest of the world, little change in output is currently envisaged in Africa, while prospects point to a contraction in Latin America and the Caribbean, North America, Europe and Oceania.

- Latest FAO forecast of world trade in rice in 2003 (calendar year basis) has been raised to 27.7 million tonnes (in milled equivalent), which is barely 1 percent below the record volume exchanged in 2002. Several countries among the world major rice importers are anticipated to reduce their purchases this year, in particular Indonesia, the Islamic Republic of Iran, Iraq, Malaysia, the Philippines and Sri Lanka. By contrast, efforts by the Thai Government to promote its rice in China might result in larger purchases by this country. Imports by African countries are anticipated to decline for the first time since 1998, reflecting mainly a retrenchment of Nigeria from the market, following the introduction of more stringent import measures. By contrast, imports by countries in Latin America and the Caribbean might rise substantially, sustained by a two-fold increase of shipments to Brazil. Given the tightness of supplies in the region and high prices in the United States, part of these imports have been sourced in Asia, in contrast with previous year practices.

- The major development in rice trade this year is an expected 42 percent drop in sales from India, following the elevation of export prices and the introduction of temporary restrictions on sales for export by the Food Corporation of India. The reduced competition from India is anticipated to underpin the performance of the other traditional exporters, in particular China and Vietnam. Thailand and the United States are also likely to gain a larger share of the international rice market. Along with India, Australia is anticipated to face considerable supply constraints, which should also entail a sizeable drop in the country’s exports this year.

- Since rice consumption is again expected to outpace production, world rice stocks at the close of the marketing seasons ending in 2004 are forecast to decline to 105 million tonnes, almost 18 million tonnes below their opening level and about 1 million tonnes more than the June forecast. Much of the decline is expected to be concentrated in China and India.

- The forecast contraction of the world end-of-season inventories would lead to a drop in the world rice stock-to-use ratio from 30 percent in 2002 to 25 percent in 2003. While still much larger than for the other main cereals, the reduced size of the rice inventories has revived fears over the possible implications of potential crop failures on food security. Against this backdrop, on 21 August, the Association of South East Asian Nations (ASEAN) agreed to establish an “East Asia Emergency Rice Reserve System" in early 2004.

- International rice prices have risen steadily since May, as reflected in the FAO Rice Export Price Index, which passed from 80 points in May, to 82 points in June, 83 in July and 85 in August. This strength evidenced mainly a tightening of supplies in some major exporting countries, but also a sustained import demand.

- Among the different traded rice, international quotations experienced the sharpest increases for medium-grain rice, fuelled by scarcities in major medium grain rice supplying countries, namely Australia, China, Egypt and the United States, at a time when rice is needed to cover import tenders by the Republic of Korea, the Chinese Province of Taiwan and Japan. Prices for both the high quality and the low quality Indica rice also moved higher, although the increases were more contained. On the aromatic rice market, prices continued on a steady upward trend.

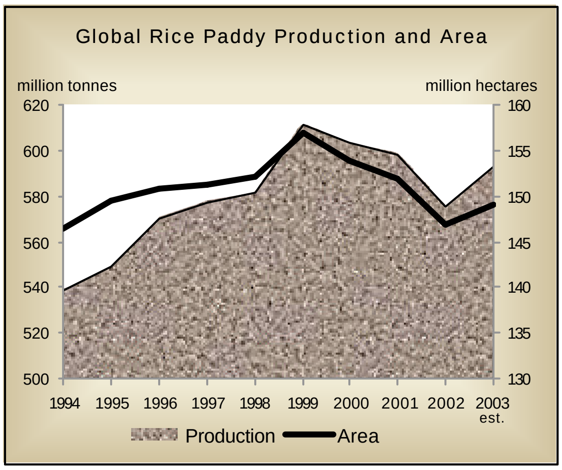
- Prospects for international rice prices over the coming months point to a renewed strength, in view of a possible surge in import demand. Several exporters have intensified their efforts to widen their markets in various geographical locations, which combined with relatively limited availabilities could bolster prices well beyond the low levels that have characterized the market in 2001 and 2002.

RICE SITUATION UPDATE AS OF 20 AUGUST 2003

I. PRODUCTION

Global paddy production to recover somewhat in 2003

The 2003 paddy season is basically over in the southern hemisphere, where producers will soon start preparations for the 2004 season. In the northern hemisphere, the 2003 main crops are at the maturing stage, with the bulk of the crops due for harvest in September-November.



FAO has raised its forecast of 2003 world paddy production by about 800 000 tonnes to 593 million tonnes, reflecting mainly an improved outlook in China. However, as the season advanced, prospects have deteriorated in several countries, especially in Japan, Pakistan, Vietnam, Egypt, the United States, Brazil and the European Union. At the same time, the estimate of world paddy production last season has been lowered by 4 million tonnes to 575 million tonnes following the release of new official figures, in particular by Bangladesh and India. As a result, current prospects for 2003 point to a 3 percent, or 18 million tonne recovery in global paddy production from the poor outcome of last season.

I.1 ASIA

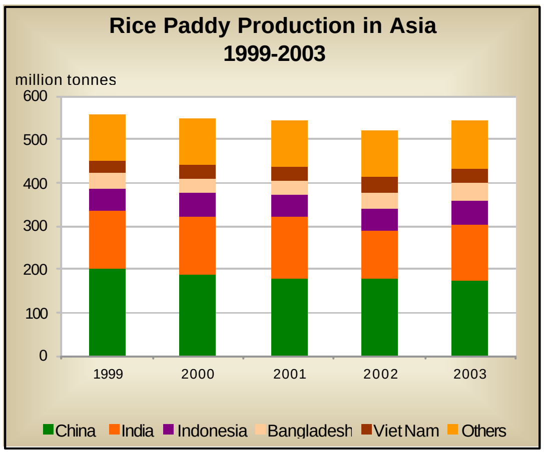
According to the present outlook, paddy production in **Asia** should stage a strong upturn, reaching 541 million tonnes this year, about 20 million tonnes above the preceding year, when erratic monsoon rains caused havoc to the sector in large parts of the region. Reports of the monsoon appear to be favourable so far, despite some excessive rainfall that caused some localized flooding in several parts of the region.

For instance, in **Bangladesh**, heavy rains in June were reported to have caused the loss of some 136 000 hectares of paddy land, while also bringing relief from the long heat weave that had gripped the country for several months. Following a downward revision in the estimate of production in 2002, the country is now anticipated to record a 4 percent increase to 39.6 million tonnes during the current season. The rise is consistent with the intensification of Government support and the on-going tendency for farmers to shift from jute to rice cultivation, as they responded to relatively high paddy prices.

Although production in **Mainland China** is still expected this year to undergo a contraction, this should be less accentuated than originally expected because of better prospects for the intermediate (or semi-late) crop, which is now set to rise by 2 percent, partly offsetting a 3 percent and 5 percent decline in the early and late rice crops, respectively. Overall, the country forecasts to gather 173.8 million tonnes in 2003, only marginally less than last year, despite violent rainstorms that hit the important producing regions of Guangdong, Hunan and Anhui in June. Tropical storms also hit the **Chinese Province of Taiwan**, causing, however, little damage to the rice fields. Accordingly, the output forecast remains at 1.7 million tonnes, down from a revised official estimate of 1.8 million tonnes in 2002.

In spite of a late start of the South-West monsoon rains, by 6 August most of the meteorological sub-divisions in **India** had recorded above-normal rainfall, with only three measuring below normal precipitation. As a result, prospects for output in 2003 point to a 14 percent recovery from the dismal season in 2002, the outturn of which was recently downgraded by 2 million tonnes to 113.6 million tonnes. Ahead of the opening of the procurement activities in October, the Ministry of Agriculture has proposed incorporating the Rupees 200 per tonne drought relief subsidy into the minimum support prices. If accepted, paddy support prices will be set this season at Rupees 5500 and at Rupees 5800 per tonne for the Common and Grade A paddy respectively (US$ 120 - 126 per tonne), that is Rupees 200 per tonne above the 2002 levels. Moreover, in an attempt to ensure that farmers get paid the minimum prices and to prevent cases of acute distress sales, the Government recently authorized the procurement agencies to buy paddy directly from farmers, rather than exclusively through millers.

Indonesia has basically concluded the harvesting of its main paddy crop, while planting of the second crop is in progress. Despite some drought-related losses reported in June in the major producing islands of Java and Sumatra and a contraction in plantings, the official forecast for the country's paddy output in 2003 has been raised from 51.4 million tonnes to 51.8 million tonnes this year, on account of higher expectations on yields. The country has failed for the past three years to reach a 53 million tonne production target and producers have laid the blame on imports for depressing local prices. In an attempt to compensate for the continued conversion of paddy fields to other agricultural and non-agricultural uses, especially in Java and Bali, the Government recently announced the launching of a programme to convert 420 000 hectares of swamps into paddy land.



The 2003 season is also practically over in **Sri Lanka**, where the harvest of the second (Yala) crop is ending in September. A combination of improved security and favourable weather conditions has boosted production under the main Maha crop to a record 1.93 million tonnes. This, added to an expected output of 1.52 million tonnes under the Yala crop would bolster the country's performance for the overall season to an historical high of 3.45 million tonnes, 400 000 tonnes above the previous forecast.

Prospects in the **Democratic Republic of Korea** also improved, as an expansion in plantings and favourable weather conditions have been reported. As a result, production could increase by 5 percent in 2003 to 2.3 million tonnes, 200 000 tonnes more than earlier anticipated.

In **Japan**, growing conditions have been unfavourable since mid-June, with low temperatures and short sunlight hours. As a result, production is currently foreseen to fall by 7 percent to 10.3 million tonnes, the lowest level since 1993 and 600 000 tonnes less than the previous forecast. Such adverse weather conditions have accentuated the negative trend in production stemming from changes in policies, a stance that is set to persist as the Government continues to liberalize the sector and reduces its involvement in rice production, distribution and trade. The Staple Food Law was revised to that effect last June, for implementation in April 2004.

Heavy monsoon rains in **Pakistan** were reported to have caused serious damage to rice grown in the Sindh region, which consists mainly of IRRI varieties. As a result, the forecast for production this season has been cut by some 650 000 tonnes to 6.4 million tonnes, only slightly above the relatively modest level of last year.

The latest estimate of production in 2002 (July-June) in **the Philippines** has been officially lowered by about 200 000 tonnes to 13.0 million tonnes (still very close to the record achieved in the previous year), reflecting a poor performance during the January-June 2003 period. Underlying the shortfall was a long dry spell over the second quarter, which hindered plantings, as well as pest and disease problems. The production forecast for 2003 (July-June), however, points to a 4 percent increase to a new high of 13.5 million tonnes. The Government continues to pursue a strong expansionary policy in paddy production and has set a target area for hybrid rice cultivation of 200 000 hectares this season.

In **Vietnam,** gathering of the spring/summer crop (the most important of the three paddy crops grown in the country) has drawn to a conclusion and harvesting of the summer/autumn crop is in progress. Official estimates point to a bumper spring/summer crop of 16.76 million tonnes, slightly greater than last year. However, the Government forecast for the whole season has been set at 33.5 million tonnes, 700 000 tonnes less than the previous FAO figure and almost 2 percent down from last year. To help farmers cope with a temporary supply glut, the Government recently instructed procurement agencies not to buy paddy rice at less than a minimum price of Dong 1500 per kg (about US$ 100 per tonne).

The outlook for paddy production in the other major producing countries in the region remains unchanged from the previous report. In **Thailand,** abundant and widespread rainfall is anticipated to boost the country's main crop, although drought in the north east, which may affect output of the fragrant rice, is causing some concern. Under current prospects, production is anticipated to reach a record 27 million tonnes, 4 percent above last season, with farmers progressively shifting to higher quality rice varieties. In this connection, the Government has increased budget allocations aimed at raising the productivity of Hom Mali, fragrant rice crops.

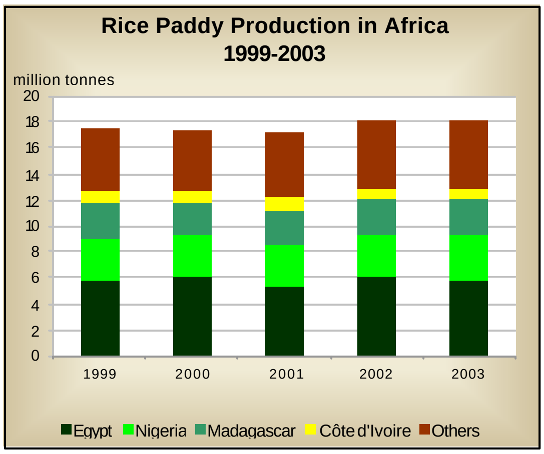
Production in **Myanmar** is also set to increase by 3 percent, following the liberalization of the sector, which should coincide with the abolition of the State procurement and trade monopolies and of producer compulsory sales to the government agencies at prices well below market levels. However, in absence of a competitive and transparent environment, there is still much uncertainty as to how the new system will be functioning and how producers will react.

In Central Asian Republics, paddy production in **Kazakhstan** has been raised by some 40 000 tonnes, to 243 000 tonnes, the highest level since 1997.

I.2 AFRICA

Africa's outlook for paddy production in 2003 has been reduced from last report by about 200 000 tonnes and now stands at 18.0 million tonnes, virtually unchanged from last year

Harvesting of the main crop just started in Egypt, which alone accounts for over 30 percent of output in the region. The country officially reported to have maintained the area under rice at around 650 000 hectares this season and to have shifted to new varieties likely to trigger further growth in yields.



Harvesting is also underway in most countries in **Western Africa**. Conditions this season have been mixed in the sub-region, with civil war interfering in several instances with agricultural activities. Generally good weather conditions have been reported in **Burkina Faso, Mali, Niger and Nigeria**, giving rise to a positive production outlook. In addition, in **Nigeria,** increased support to the sector by the Government should contribute to an expected 4 percent increase to 3.5 million tonnes this season.

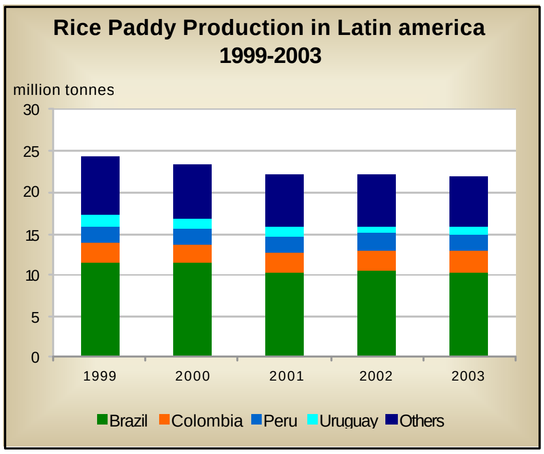
By contrast, erratic rainfall patterns in **Cote d'Ivoire, Ghana, Guinea, Senegal and Sierra Leone** have led to a downgrading of production forecast in those countries, all of which are now expected to experience a shortfall compared with last year. Security problems associated with civil war in **Liberia, the Democratic Republic of Congo** and **Sierra Leone**, with the resulting population displacement and the difficulty of securing the necessary inputs, also have led to a worsening of production prospects in those countries.

In **Eastern Africa,** harvesting of the 2003 paddy crop has been completed and preliminary assessments of the outcome points to a 4 percent contraction from last year in **Tanzania**, reflecting the severe drought conditions that have prevailed in February and March, just following planting of the main paddy crop.

In **Southern Africa**, official production estimates point to 19 percent year-to-year increase in **Mozambique**, to 200 000 tonnes, 20 000 tonnes more than previously forecast. The increase stemmed mainly from an improvement of yields in both the rainfed cultivation predominating in the northern provinces and the irrigated land in the south. The gains reflected the beneficial effects of the rains associated with tropical cyclone Japhet and improved seed supplies distributed by the Ministry of Agriculture in response to last year's drought. Similarly, despite a negative start of the season, production in **Madagascar** is estimated to have increased by 5 percent to 2.8 million tonnes, the highest level on record.

I.3 LATIN AMERICA AND THE CARIBBEAN

Although seasonal torrential rains have fallen since early July in **Central America and the Caribbean**, causing some flooding in Costa Rica, El Salvador, Honduras, Nicaragua and Panama, no particular damage to paddy crops has been reported in those countries. Nonetheless, a 33 percent drop in output has been officially forecast in **El Salvador**, following a sharp contraction in plantings, under what appears a distinct tendency for farmers to move out from paddy cultivation in recent years. On the other hand, several countries that had experienced a production shortfall last season are currently anticipated to witness a recovery, in particular **Costa Rica** and **Mexico**. A rise is also preliminarily forecast in the **Dominican Republic, Nicaragua** and **Panama.**



Paddy from the 2003 season has been almost completely harvested in the South America and producers will soon start planting the new 2004 crops.

Official paddy production estimates for 2003 in **Argentina** show an 8 percent contraction to what appears to be the lowest outcome since 1995. While plantings failed to recover, yields were depressed by late rainfall at the onset of the season, in October and November and, again, by unfavourable climatic conditions at harvest time.

In **Brazil**, the state agency CONAB, which recently conducted the fifth crop survey, lowered by 200 000 tonnes its estimates of paddy production this season. The new figure points to a 2 percent year-to-year contraction to 10.4 million tonnes, mainly reflecting weather problems in the major producing state of Rio Grande do Sul where low temperature and excessive rains delayed the start of the season and depressed yields. However, the production results were positive in the second largest producing state of Mato Grosso, reflecting the opening of new rice areas and the growing adoption of advanced technologies.

In the rest of the region, adverse weather conditions are anticipated to depress production in **Chile, Ecuador, Peru, Uruguay** and **Venezuela**.

By contrast, a positive performance of the sector is foreseen in **Colombia**, where a strong rise in planting was reported for the main crop, mainly reflecting an extension in the Department of Casanare and in the low Cauca area, in the eastern plains (Llanos Orientales). However, prospects for a large output increase have been dampened since August by adverse weather conditions. Overall, the season is forecast to end with a 6 percent overall increase in output to 2.5 million tonnes, some 100 000 tonnes more than earlier anticipated.

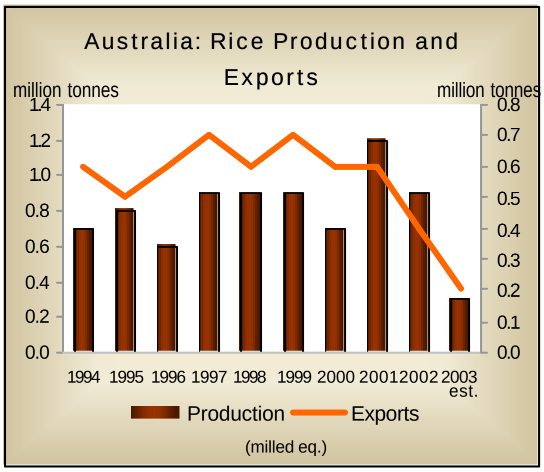
Official estimates also pointed to a strong increase in **Guyana**, where production is set to grow by 13 percent to slightly above 500 000 tonnes, and in **Paraguay,** reflecting an expansion in plantings.

I.4 NORTH AMERICA

In the **United States**, harvesting of the 2003 crop, as of 17 August, was well advanced in the Gulf states of Louisiana and Texas but had still to start in most of the other producing states. The forecast for overall production in the country was recently lowered by some 200 000 tonnes, to 8.9 million tonnes, 8 percent below the bumper crop reaped last year. Much of the annual contraction should be concentrated in the State of California, where planting of the crop was hindered by excessive rains. Both medium/short grain and long grain rice should be affected, with the drop in output anticipated at 6 percent for the former and at 8 percent for the latter.

I.5 OTHER REGIONS

Gathering of the 2003 crop in **Australia** was concluded in May and planting of the new season will not start until October.



The latest assessment of the 2003 crop, which was heavily constrained by a lack of water for irrigation, confirms a dismal output of 391 000 tonnes, or 70 percent less than in 2002. Concern is now extending to the 2004 season, since rains over the winter and spring have been insufficient to restore reservoir levels, and prospects for next season production now stand at 440 000 tonnes, improved from the current season but well below the 1.8 million tonnes and 1.3 million tonnes harvested in 2001 and 2002.

In the **European Union (EU),** an increase in plantings was reported in May in all producing countries, especially Spain. Since then, the prolonged drought and heat wave that have lingered over Europe this summer have dampened output prospects substantially. The situation is particularly serious in Italy and Spain, where the lack of rainfall entailed serious losses. As a result, FAO forecast of EU's paddy production has been lowered since the June issue of Food Outlook by some 200 000 tonnes to 2.4 million tonnes, 7 percent less than last season.

On 26 June 2003, The EU Council of Ministers reached an agreement over the reform of the Common Agriculture Policy (CAP), for implemented in 2004 and 2005. For rice, the principal elements of the reform are the maintenance of the intervention price, albeit at € 150 per tonne, or about half its current level, and a ceiling on intervention purchases of 75 000 tonnes per season. Direct aids to eligible producers are set to rise from € 52 to € 177 per tonne, of which € 102 per tonne will be granted in the form of a "single farm payment" based on historical (2000-2002) production rights and € 75 per tonne as a crop specific aid. The single farm payment will be linked to the respect of the environment, animal welfare and quality standards under the principle of "cross-compliance". The single farm payment will be introduced as of 1 January 2005. While the first endowment of € 5000 is not to be subject to deductions, payments exceeding that amount are to be reduced by 3 percent in 2005, 4 percent in 2006 and 5 percent between 2007 and 2013. Part of the proceedings will be re-directed to finance rural development activities under the "modulation" principle. The reform also envisages the re-negotiation of EU's rice import regime with WTO trade partners.

II. INTERNATIONAL TRADE IN RICE

Global market conditions tighten

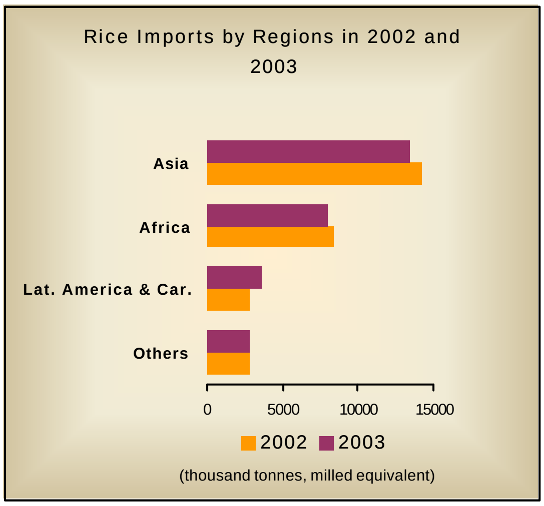
Latest FAO forecast of world trade in rice in 2003 (calendar year basis) has been raised from last report by some 600 000 tonnes to 27.7 million tonnes (in milled equivalent), only 1.4 percent below the record volume exchanged in 2002. The forecast for higher imports was triggered by the worsening of the production outlook in several countries, in particular Bangladesh and Brazil. Although export availabilities appear sufficient so far to meet the additional demand for imports, global market conditions are anticipated to tighten in the next few months, barring strong changes in production prospects.

II.1 IMPORTS

Global rice imports in 2003 might come close to last year historical high

In **Asia**, forecast imports by **Bangladesh** in 2003 have been adjusted from 502 000 to 700 000 tonnes, in line with the official downsizing of output in 2002. At that level, imports would be about 30 percent above the official estimate of 544 000 tonnes in 2002. The year-to-year increase should be facilitated by the reduction in import duties effected last February.

Purchases by **China** were also raised, following news of a government-to-government deal with Thailand, which could set the basis for larger shipments of Thai fragrant rice to China. Yet, the country's imports would remain relatively modest, at 350 000 tonnes, 100 000 tonnes more than last year but still considerably short of the 4.7 million tonne it committed to import this year at a preferential 1 percent duty, under the WTO Agreement. As domestic rice prices have failed to rebound in spite of the sharp fall in output experienced in the past few years, imports remain of limited interest, except for the high quality rice varieties.



Following improved forecast for production this year, shipments to **Indonesia** have been lowered by 100 000 tonnes to 3.3 million tonnes, a 200 000 tonne decline from 2002. BULOG, the state food company, recently announced it would cease to import rice until the end of the year and concentrate on domestic rice procurement. However, shipments by private traders are expected to continue, subject to the payment of the duty, which remains at 430 rupiah/kg (around US$ 50 per tonne). Late August, however, the Minister of Agriculture was reported to have announced that this tariff will be raised to 510 rupiah/kg (around US$ 60 per tonne) as of 2004.

Forecast shipments into the **Islamic Republic of Iran** remain at 700 000 tonnes, well below the level of 1 million tonnes estimated for last year. The country was recently reported to have offered to serve as a platform for distributing rice from Thailand into the former USSR Republics, which would require establishing a warehouse at the port in Kirsch Island and developing transportation and distribution channels.

Despite the expected production setback, purchases by in **Japan** this year are anticipated to remain at the WTO minimum access level of 650 000 tonnes, as the impact of the shortfall on trade would be delayed to 2004. Such impact is unlikely to be as strong as in 1994, when the country's imports soared to an all time high of 2.5 million tonnes in reaction to a 26 percent contraction in production in the preceding year.

Imports by the **Philippines** are set to fall to some 1.1 million tonnes, unchanged from last report but 14 percent below FAO estimate for 2002. This year, the Government has authorized imports by farmers, subject to a 50 percent ad-valorem duty and to a ceiling per importer of 10 000 tonnes per year, thereby abolishing the import monopoly the National Food Authority (NFA) has held since 1993.

Import forecasts for the rest of Asia are unchanged from last report. Compared with the previous year, they show a contraction in **Iraq** and in **Sri Lanka,** where the Government recently announced a rise in the import tariff to rupee 9 per kilo (US$ 93 per tonne). The duty had already been raised in March, from 5 rupee to 7 rupee, the level that had been prevailing until late 2002. By contrast, a year-to-year increase of imports by the **Rep. of Korea**, **Jordan** and **Saudi Arabia** continues to be anticipated. The Government of Turkey also forecast a rise in imports (which are currently subject to a tariff of 45.5 percent for milled rice and 38.0 percent for paddy) from 272 000 tonnes in 2002 to 286 000 tonnes in 2003.

Overall, rice imports into **Africa** are forecast to hover around 8.0 million tonnes, some 400 000 tonnes short of last year's record. If confirmed, this would be the first decline of imports by the region since 1996.

Among the largest importers in the region, expected shipments to the **Côte d'Ivoire** have been raised by 200 000 tonnes, to 1.1 million tonnes, as China and Thailand reported a surge in deliveries to the country so far this year, despite the security problems prevailing there.

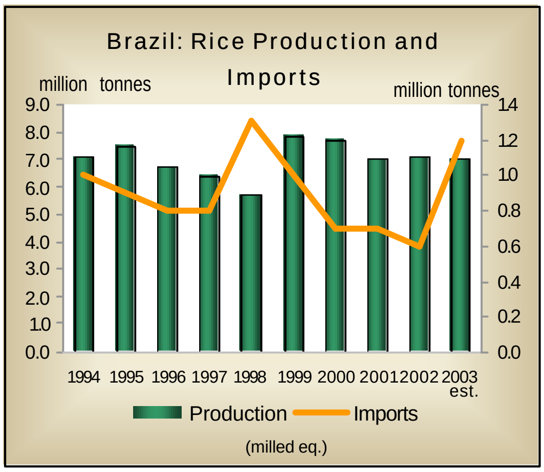
Similarly, rice sales to **Benin** by Thailand were reported to have reached already 150 000 tonnes between January and June, reflecting to some extent a diversion of the trade normally flowing to Nigeria and the Cote d'Ivoire to nearby locations. As a result, Benin's import forecast has been raised to 200 000 tonnes, up from a previous forecast of 90 000 tonnes.

By contrast, partner trade data indicated a drop in rice exports to **Nigeria** over the first 6 months of the year, consistent with the on-going attempts of the Nigerian Government to reduce rice inflows, with the view to achieve self-sufficiency by 2006. Consequently FAO has lowered its forecast of Nigeria's imports by 200 000 tonnes to 1.5 million tonnes, down from 1.8 million tonnes last year.

In the rest of Africa, import forecasts are unchanged from last report, with a year-to-year contraction foreseen for **Cameroon, Ghana, Guinea** and **Senegal**, while an increase is anticipated in **Libya** and **Comoros**.

In **Latin America and the Caribbean**, the outlook for rice imports has also been raised by some 200 000 tonnes since last issue, to some 3.5 million tonnes, or 28 percent more than last year.

The revision reflects larger shipments to **Brazil**, prompted by the deterioration of the production outlook this season. The country is now anticipated to purchase 1.15 million tonnes, twice as much as last year, of which some was reported to have been sourced in Asia, in sharp contrast with previous years practices, when rice from most of the region was banned on phytosanitary grounds. Rice imports by **Colombia, Cuba, Mexico** and **Venezuela** are also anticipated to rise.

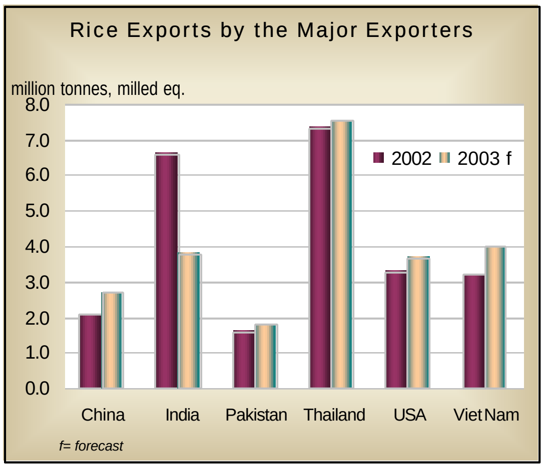


Elsewhere, imports by the **Russian Federation** are set to fall, following the introduction, as of August and for a period of nine months, of a minimum duty of € 0.03 per kilo (about US$ 33 per tonne), should the application of the 10 percent tariff result in an inferior value. **Australia**, on the other hand, may have to resort to much larger imports than usual, possibly of the order of 100 000 tonnes, to maintain a minimum level of shipments to its traditional export markets while ensuring sufficient supplies at home.

II.2 EXPORTS

Several major exporters face supply constraints

FAO Forecast of global paddy exports in 2003 has been revised upward, as several exporters are expected to respond to an expected strength of import demand in the last quarter of the year by releasing greater than originally anticipated supplies. Export forecasts were raised for China, the Rep. of Korea, the United States and Vietnam, while they were reduced in the case of India, Myanmar and Pakistan.



Shipments from **China** are now put at 2.6 million tonnes, up from less than 2 million tonnes last year and 600 000 tonnes above the previous forecast. The adjustment was prompted by a reported 79 percent increase of shipments in the January-July period from the same period last year. Moreover, based on the prevailing domestic prices, China continues to be a competitive source of rice, which should foster an increase in its deliveries.

The bumper crops harvested early this year should allow **Sri Lanka** to export about 100 000 tonnes this year, especially if, as announced late August, such exports would qualify for subsidies to the tune of rupee 7 per kilo (US$ 72 per tonne). This would be the first time that sizeable sales of rice are made by the country since 1995.

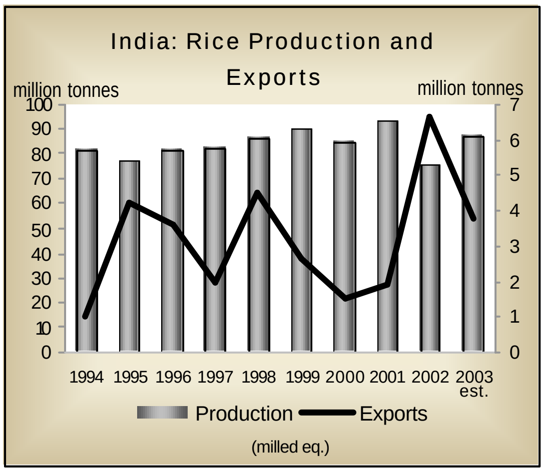
Shipments from the **Republic of Korea**, all in the form of food aid, are now estimated to reach 150 000 tonnes, a part of the 400 000 tonnes deal clinched with the Democratic Republic of Korea last May, the shipment of which started in July. Last year the Republic of Korea shipped another 400 000 tonnes to the neighbouring country, again in the form of food aid.

The forecast for **Vietnam** has also been raised from 3.9 to 4.0 million tonnes, substantially higher than the volume of 3.2 million tonnes shipped in 2002. By the end of July, the country had already increased its deliveries by 50 percent compared with the first seven months in 2002.

Strong demand from Latin American countries has boosted **United States'** expectations of rice exports, now estimated to reach an all time high of 3.70 million tonnes, 150 000 tonnes more than the previous forecast and a 400 000 tonne increase from last year.

Thailand export forecast remains at 7.5 million tonnes only 2 percent up from last year. Shipments from the country by 14 August had reached 4.3 million tonnes, a 3 percent year-on-year increase. Thailand appears well positioned to grasp potential opportunities arising from a scarcity of supply in other major exporting countries, as it holds substantial reserves of rice in stocks.

By contrast, a large drop in rice inventories has warranted a 10 percent elevation of rice prices for export by the Government of **India** over the third quarter of the year, from Rupees 6 610 to Rupees 7300 (US$ 159) per tonne for raw rice, and from Rupees 6 915 to Rupees 7500 (US$ 164) per tonne for parboiled rice. The measure has depressed export prospects for the country from 4.0 million to 3.8 million tonnes, a pronounced drop compared to the outstanding 6.6 million tonne performance of last year. The downward revision also reflects the temporary suspension, as of August and for an undetermined period, of rice allocations by the Food Corporation of India to exporters, in reaction to low inventories and to a backlog in grain deliveries caused by shortages of train wagons for inland transportation. On the policy front, the country removed last March a ban on paddy or unhusked rice exports, while also lifting the licensing requirements for the export of Basmati rice. These moves coincided with a change in the EU policies, which might result in the elimination of an import duty waiver of € 250 per tonne on imports of unhusked basmati rice from India and Pakistan. The removal of that waiver is among those policy measures that the EU Commission plans to negotiate with its trading partners under the framework of Article 28 of WTO.



In **Pakistan**, the crop losses in the Sindh region this season would mainly affect the country's exports in 2004, since rice from the new harvest will start reaching the market in September. However, given a currently reported scarcity of rice, this year's shortfall might also seriously constrain availabilities for export in the last quarter of the year. Low stocks already prompted a strengthening of prices of Pakistani rice, compared with similar product from India and Vietnam. In addition, a reported sharp rise in freights might further undercut the country's competitive wedge, despite the extension of a freight subsidy to low price destinations that was introduced early this year, originally until 30 June. Consequently, the forecast of exports by Pakistan has been reduced by 100 000 tonnes to 1.8 million tonnes, which would still imply a recovery from the poor performance of 2002.

The volume of shipments from **Myanmar** also fell in the first few months of the year. On that basis, exports in 2003 have been lowered by 200 000 tonnes from last issue, to 900 000 tonnes, almost unchanged from last year. Rice trading activities this year will be carried out by the private sector, since the reform of the rice national policy announced in June abolished the Government trade monopoly in rice.

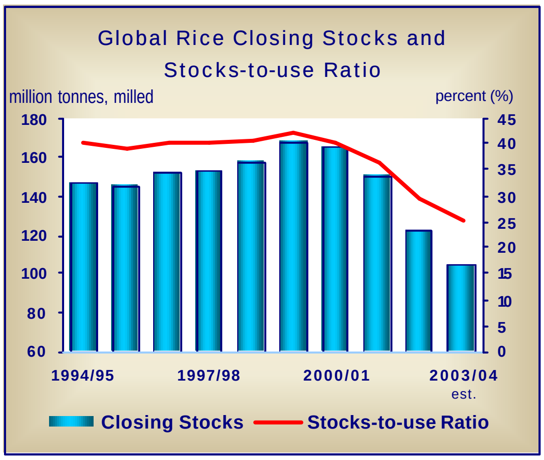
III. STOCKS

The contraction in carryover stocks continues unabated

Since rice consumption is again expected to outpace production, world rice stocks at the close of the marketing seasons ending in 2004 are forecast to decline to 105 million tonnes, almost 18 million tonnes below their opening level and about 1 million tonnes more than the June forecast.

The contraction is expected to be concentrated mainly among exporting countries, with the bulk of the decline accounted for by **China**. Forecast carry-over stocks in the country have been revised downward to 64 million tonnes, 15 million tonnes below their opening level and the fourth consecutive drop since 2000. Closing inventories in **India** were also cut and are now forecast at 11.3 million tonnes, the lowest in the decade. Among the other major exporters, forecasts point to a smaller size of reserves at the end of the season for **Australia, Egypt, Pakistan** and the **United States**. Against that general pattern, closing stocks in

Myanmar could increase, while they are unlikely to change much in **Vietnam**.
As for the major importing countries, FAO anticipate rice reserves by the end of the seasons to fall below their opening levels in **Indonesia, Japan,** the **Philippines,** and **Nigeria**, while they might end higher in **Bangladesh** and **Sri Lanka**.

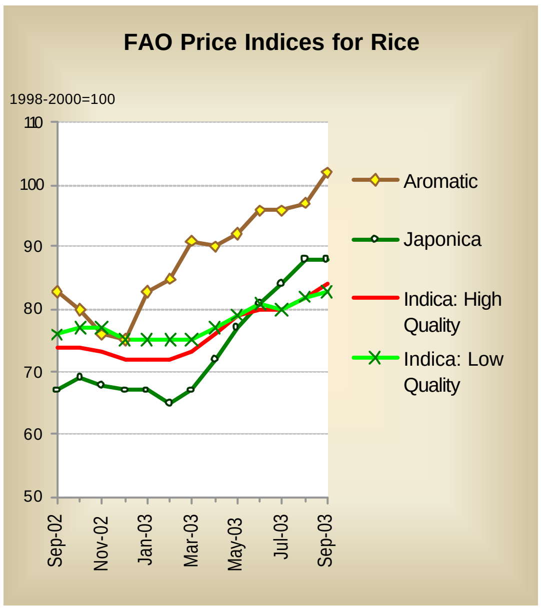


The forecast contraction of the world end-of-season inventories would lead to a drop in the world rice stock-to-use ratio from 30 percent in 2002/2003 to 25 percent in 2003/04. While still much larger than for the other main cereals, the reduced size of the rice inventories has revived fears over the possible implications of potential crop failures on food security. Against this backdrop, on 21 August, the Association of South East Asian Nations (ASEAN, composed of Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam) and its three partners (China, Japan and South Korea) agreed to establish an "East Asia Emergency Rice Reserve System", in early 2004.

IV. INTERNATIONAL PRICES

Rice prices under upward pressure

International rice prices have risen steadily since May, as reflected in the FAO Rice Export Price Index, which passed from 80 points in May, to 82 points in June, 83 in July and 85 in August. This strength evidenced mainly a tightening of supplies in some major exporting countries, in particular, Australia, India, Pakistan and the United States, where quotations moved higher, but also a sustained import demand, especially from countries in Latin America and the Caribbean and in the Near East. By contrast, the winding up of government procurement programme at the end of July in Thailand tended to depress export prices in the country in August. The arrival on the market of the summer/autumn crop in Viet Nam also has had a depressive effect on the country's rice quotations since May.



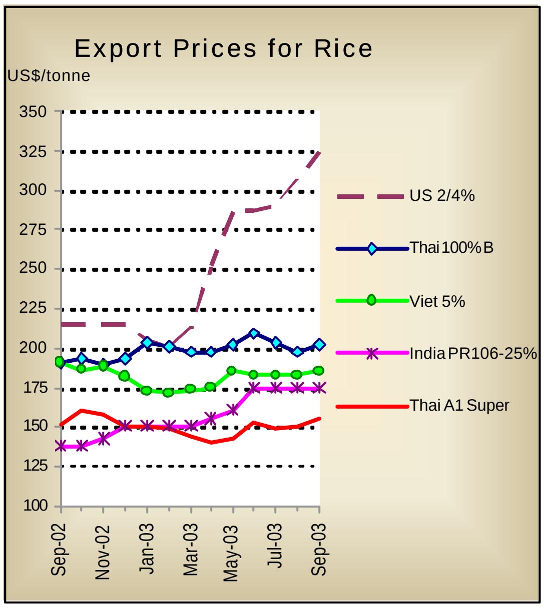
FAO Rice Price Indices						
		All	**Indica**		**Japonica**	**Aromatic**
			High	**Low**		
		1998-2000 = 100				
1998		**115**	**117**	**115**	**113**	**113**
1999		**101**	**99**	**101**	**105**	**98**
2000		**84**	**84**	**83**	**83**	**89**
2001		**74**	**74**	**74**	**76**	**69**
2002		**72**	**73**	**75**	**67**	**74**
2002	September	73	74	76	67	83
	October	74	74	77	69	80
	November	73	73	77	68	76
	December	72	72	75	67	75
2003	January	73	72	75	67	83
	February	72	72	75	65	85
	March	73	73	75	65	91
	April	76	76	77	72	90
	May	80	79	79	77	92
	June	82	80	81	81	96
	July	83	80	80	84	96
	August	85	82	82	88	97
	September	87	84	83	88	102
2002	Jan.-Sep.	71	73	74	67	73
2003	Jan.-Sep.	79	78	79	77	92

Source *: FAO*

N.B. - The FAO Rice Price Index is based on 16 rice export quotations. "Quality" is defined by the percentage of broken kernels, with high (low) quality referring to rice with less (equal to or more) than 20 percent brokens. The Sub-Index for Aromatic Rice follows movements in prices of Basmati and Fraarant rice.

* Two weeks only.

Among the different traded rice, international quotations experienced the sharpest increases for medium-grain rice, with the FAO Japonica index climbing 11 points over the period from 77 in May to 88 in August. Much of the momentum was fuelled by scarcities in the major medium grain rice supplying countries, namely Australia, China, Egypt and the United States, at a time when rice was needed to cover import tenders by the Republic of Korea, the Chinese Province of Taiwan and Japan. The increase was particularly strong in the case of the US No.2, 4% husked medium grain rice, which rose by US$ 43 per tonne from US$ 230 per tonne in May to US$ 273 per tonne in August.



As for high-quality Indica, quotations from Pakistan and the United States strengthened steadily between May and August, while the price of the Thai 100%B dropped to US$ 198 per tonne in August, after reaching a high of US$ 209 per tonne in June. As a result of the diverging price movements, the price differential between the United States and Thailand high quality rice widened to US$ 107 per tonne in August, compared with US$ 85 per tonne in May, which resulted in some displacement of United States rice by Overall, the FAO price index for the Indica, High Quality rice was up from 79 in May to 80 in June and July and to 82 in August.

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.					
1998	**315**	**413**	**288**	**258**	**243**	**255**	**241**	**215**	**412**	**492**	**460**
1999	**253**	**333**	**228**	**215**	**237**	**204**	**206**	**192**	**405**	**486**	**397**
2000	**207**	**271**	**183**	**172**	**232**	**159**	**163**	**143**	**289**	**418**	**428**
2001	**177**	**264**	**166**	**153**	**185**	**148**	**148**	**135**	**256**	**332**	**275**
2002	**197**	**207**	**187**	**171**	**135**	**168**	**159**	**151**	**219**	**366**	**306**
2002											
September	191	215	191	170	138	171	160	152	213	396	353
October	193	215	186	174	138	170	165	161	231	397	325
November	190	215	188	171	143	172	156	157	221	348	313
December	190	215	188	171	143	172	156	157	221	348	313
2003											
January	203	204	172	177	150	161	156	151	213	369	337
February	201	200	171	176	150	161	160	149	197	369	355
March	198	212	173	172	150	162	162	144	204	369	438
April	198	251	175	171	155	163	175	140	249	336	442
May	202	287	185	173	161	168	178	143	284	336	460
June	209	287	183	180	175	164	178	153	298	n.a.	486
July	203	289	182	176	175	162	179	149	309	n.a.	482
August	198	305	182	172	175	162	187	151	309	n.a.	488
September *	202	324	185	177	175	165	188	155	n.a.	n.a.	546
2002 Jan.-Sep.	199	205	188	171	133	168	160	150	218	367	303
2003 Jan.-Sep.	202	262	179	175	163	163	174	148	263	355	448

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.
* First two weeks.

Similarly, prices of the Indica, lower quality rice also experienced some moderate increases, reflected in a 3 points rise of the FAO Low Quality Indica Price Index between May and August. The price strength stemmed mainly from higher quotations for 25% broken rice from Pakistan and India, while the same price trended lower in Viet Nam.

On the aromatic rice market, prices continued on a steady upward trend, which raised the index by 5 points to 97 between May and August, or close to the level prevailing in the index base period (1998-2000). The vigour was felt in all three major aromatic rice markets, the Pakistan Basmati, Indian Basmati and Thailand fragrant, which gained between US$25 and US$ 30 per tonne from May to August.

Prospects for international rice prices over the coming months point to a renewed strength, in view of a possible surge in import demand. Several exporters have intensified their efforts to widen their markets in various geographical locations, which combined with relatively limited availabilities could bolster prices well beyond the low levels that have characterized the market since 2000. However, the price pattern will become more definite when the results of the main paddy crops are released.

WORLD PADDY PRODUCTION

	2001	2002 (estimated)	2003 (forecast)
		million tonnes	
WORLD	**598.6**	**574.8**	**593.2**
Developing countries	572.1	549.2	570.0
Developed countries	26.4	25.7	23.2
ASIA	**544.4**	**520.6**	**541.0**
Bangladesh	36.4	38.0	39.6
Cambodia	4.1	3.7	4.1
China 1/	179.3	176.3	175.5
India	139.6	113.6	130.0
Indonesia	50.5	51.5	51.8
Iran, Islamic Rep. of	2.0	2.4	2.5
Japan	11.3	11.1	10.3
Korea Rep. of	7.5	6.7	6.8
Myanmar	21.9	22.8	23.5
Pakistan	5.8	6.3	6.4
Philippines	13.1	13.0	13.5
Sri Lanka	2.7	2.9	3.5
Thailand	26.5	25.9	27.0
Viet Nam	32.0	34.1	33.5
AFRICA	**17.3**	**18.0**	**18.0**
North Africa	**5.3**	**6.1**	**5.8**
Egypt	5.2	6.0	5.8
Sub-Saharan Africa	**12.0**	**11.9**	**12.1**
Western Africa	7.6	7.5	7.6
Côte d'Ivoire	1.1	0.8	0.8
Guinea	0.8	0.8	0.8
Mali	0.9	0.9	1.0
Nigeria	3.3	3.4	3.5
Central Africa	0.4	0.4	0.4
Eastern Africa	1.1	1.1	1.0
Tanzania	0.8	0.8	0.8
Southern Africa	3.0	3.0	3.2
Madagascar	2.7	2.7	2.8
Mozambique	0.2	0.2	0.2
CENTRAL AMERICA	**2.2**	**2.3**	**2.4**
Mexico	0.2	0.2	0.3
SOUTH AMERICA	**19.9**	**19.8**	**19.5**
Argentina	0.9	0.7	0.7
Brazil	10.4	10.6	10.4
Colombia	2.3	2.4	2.5
NORTH AMERICA	**9.8**	**9.6**	**8.9**
United States	9.8	9.6	8.9
EUROPE	**3.2**	**3.2**	**3.0**
EC 2/	2.6	2.6	2.4
OCEANIA	**1.8**	**1.3**	**0.4**
Australia	1.8	1.3	0.4

WORLD IMPORTS OF RICE

	2001	2002 (estimated)	2003 3/ (forecast)
		million tonnes, milled	
WORLD	**24.2**	**28.1**	**27.7**
Developing countries	20.3	24.0	23.6
Developed countries	3.9	4.1	4.0
ASIA	**10.9**	**14.2**	**13.5**
Bangladesh	0.4	0.5	0.7
China 1/	0.3	0.4	0.5
Indonesia	1.5	3.5	3.3
Iran, Islamic Rep. of	0.8	1.0	0.7
Japan	0.6	0.7	0.7
Malaysia	0.5	0.6	0.5
Philippines	0.8	1.3	1.1
Saudi Arabia	0.8	0.8	0.8
Sri Lanka	0.1	0.1	0.1
AFRICA	**7.8**	**8.4**	**7.9**
Côte d'Ivoire	1.1	1.0	1.1
Nigeria	1.7	1.8	1.5
Senegal	0.7	0.7	0.7
South Africa	0.5	0.6	0.6
SOUTH AMERICA	**1.0**	**0.8**	**1.5**
Brazil	0.7	0.6	1.2
Peru	0.1	0.0	0.0
NORTH & C. AMERIC/	**2.4**	**2.6**	**2.7**
Mexico	0.5	0.5	0.6
EUROPE	**1.7**	**1.7**	**1.7**
EC 2/	0.7	0.7	0.7
OCEANIA	**0.4**	**0.3**	**0.4**

WORLD EXPORTS OF RICE

	2001	2002 (estimated)	2003 3/ (forecast)
		million tonnes, milled	
WORLD	**24.2**	**28.1**	**27.7**
Developing countries	20.2	23.9	23.0
Developed countries	4.0	4.2	4.7
ASIA	**18.5**	**22.5**	**21.6**
China 1/	2.0	2.1	2.7
India	1.9	6.6	3.8
Myanmar	0.7	0.9	0.9
Pakistan	2.3	1.6	1.8
Thailand	7.5	7.3	7.5
Viet Nam	3.5	3.2	4.0
AFRICA	**0.7**	**0.5**	**0.7**
Egypt	0.7	0.5	0.7
SOUTH AMERICA	**1.5**	**1.2**	**1.2**
Argentina	0.4	0.2	0.2
Uruguay	0.8	0.6	0.6
NORTH AMERICA	**2.6**	**3.3**	**3.7**
United States	2.5	3.3	3.7
EUROPE	**0.2**	**0.3**	**0.2**
EC 2/	0.2	0.3	0.2
OCEANIA	**0.6**	**0.4**	**0.2**
Australia	0.6	0.4	0.2

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

RICE : Supply and Utilization in Main Exporting Countries. (National Crop Years)

CHINA 2/ 3/ (Oct./Sep.) (......... *thousand tonnes* ....)

	2001/2002		2002/2003 prelim.		2003/2004 f'cast	
Opening Stocks	106460	F	92900	F	78092	F
Production 1/	122901	G	120876	G	120258	*
Imports	376	G	500	F	550	F
Total Supply	229737		214276		198900	
Domestic Use	134769		133484		132600	
Exports	2068	G	2700	F	2700	F
Closing Stocks	92900	F	78092	F	63600	F

INDIA 2/ (Oct./Sep.) (......... *thousand tonnes* ....)

	2001/2002		2002/2003 prelim.		2003/2004 f'cast	
Opening Stocks	26400	F	26800	F	14000	F
Production 1/	93080	G	75720	G	86671	F
Imports	10	F	30	F	50	F
Total Supply	119490		102550		100721	
Domestic Use	86090		84750		85921	
Exports	6600	F	3800	F	3500	F
Closing Stocks	26800	F	14000	F	11300	F

PAKISTAN 2/ (Nov./Oct.) (......... *thousand tonnes* ....)

	2001/2002		2002/2003 prelim.		2003/2004 f'cast	
Opening Stocks	970	F	550	F	200	F
Production 1/	3882	G	4228	G	4300	G
Imports	0	F	0	F	0	F
Total Supply	4852		4778		4500	
Domestic Use	2699		2778		2820	
Exports	1603	G	1800	F	1600	F
Closing Stocks	550	F	200	F	80	F

THAILAND 2/ (Nov./Oct.) (......... *thousand tonnes* ....)

	2001/2002		2002/2003 prelim.		2003/2004 f'cast	
Opening Stocks	1800	F	2500	F	2500	F
Production 1/	17558	G	17170	G	17874	F
Imports	1	G	0	F	0	F
Total Supply	19359		19671		20374	
Domestic Use	9532		9671		9874	
Exports	7327	G	7500	G	7700	F
Closing Stocks	2500	F	2500	F	2800	F

UNITED STATES 4/ (Aug./Jul.) (......... *thousand tonnes* ....)

	2001/2002		2002/2003 prelim.		2003/2004 f'cast	
Opening Stocks	887	G	1219	G	624	G
Production 1/	6738	G	6507	G	6107	G
Imports	419	G	476	G	492	G
Total Supply	8044		8202		7223	
Domestic Use	3867		3846		3949	
Exports	2958	G	3732	G	2723	G
Closing Stocks	1219	G	624	G	551	G

VIET NAM 2/ (Nov./Oct.) (......... *thousand tonnes* ....)

	2001/2002		2002/2003 prelim.		2003/2004 f'cast	
Opening Stocks	4020	F	4500	F	4900	F
Production 1/	21324	G	22720	G	22345	G
Imports	2	F	2	F	2	F
Total Supply	25346		27222		27247	
Domestic Use	17606		18322		18247	
Exports	3240	G	4000	F	4100	F
Closing Stocks	4500	F	4900	F	4900	F

Symbols:

G Official figure
* Unofficial figure
F FAO estimate/forecast

Footnotes:

Totals computed from unrounded data.
1/ Milled basis.
2/ Rice trade data refer to the calendar year of the second year shown.
3/ Including Taiwan province.
4/ Rice trade data refer to the August/July marketing season.