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Rice Mountain: Assessment of the Thai rice pledging program

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Sources:

<http://www.bangkokpost.com/business/news/605304/more-state-rice-for-sale>

<http://englishnews.thaipbs.or.th/decision-thursday-on-yingluck-rice-pledging-case>



- Background
- Overview of the rice sector in Thailand
- Analysis
- Concluding remarks

Background

- **Rice production and consumption:**
 - From 2001 to 2009, approximately 70 % of rice production was consumed in Thailand;
 - Annual rice consumption per capita is around 118 kg (about 30% of total food consumption).
 - Major export commodity in Thailand.
- **The rice price-pledging scheme:**
 - To win electoral support, the former Prime Minister Yingluck Shinawatra provided market price support to paddy rice producers.
 - Between 2004 and 2014, Thailand implemented 11 subsidy schemes covering 15 harvests. But the most significant was implemented by Prime Minister Shinawatra in 2011 when the price premium was about 50 per cent above the going market rate.
 - The Government also reduced exports and built up stocks in an effort to push up world prices.
 - This scheme was discontinued in May 2014 when the Government was dismissed.

- Thailand's Finance Ministry has estimated the total losses at around 700 billion baht (around US\$21,5 billion which more than three quarters of these losses (i.e. 536 billion baht or \$16,5 billion) occurred since 2011 ([Bangkok Post 2015](#))).
 - Many believe, however, that there is the lack of transparency in the process of obtaining this estimate.
 - Getting the right estimate is crucial given the civil suit brought against the former PM.
 - In early 2015, the National Anti-Corruption Commission (NACC) formally asked the Finance Ministry to file a civil suit demanding compensation from Ms Shinawatra for negligence in her government's rice pledging scheme.
 - The demanded compensation would depend on total losses resulting from the policy highlighting the importance of reviewing methods to get estimates of the policy's welfare effects.

Objectives

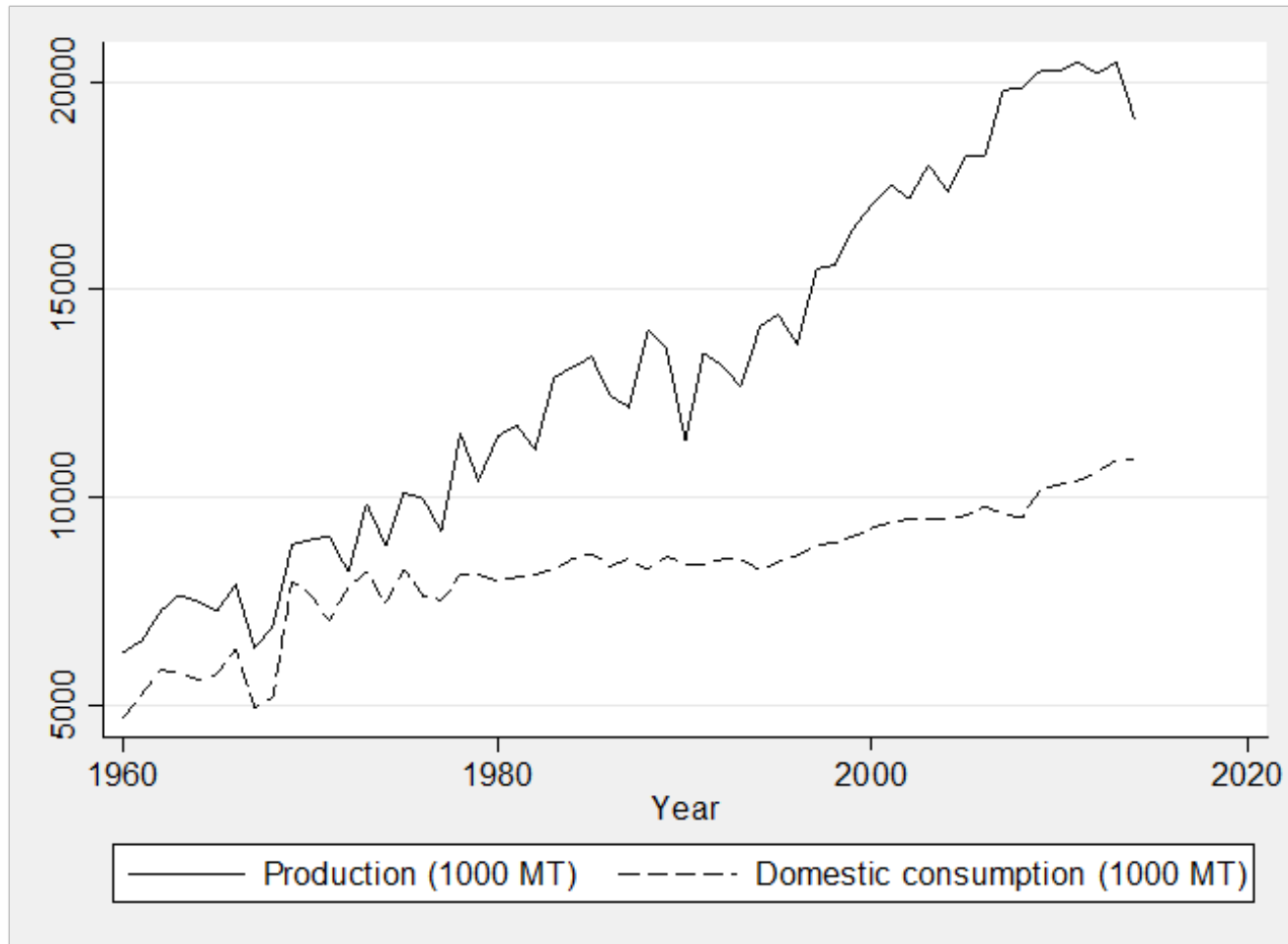
- Despite exhaustive media coverage, to the authors' knowledge, there has not been any empirical study demonstrating the welfare effects of the Thai rice pledging scheme.
 - The most relevant study is by Warr (2014a). Whilst the study provides important insights into the impacts of (unilateral) elimination of trade barriers including to agricultural commodities, it assumes that the rice pledging policy effects on the rates of protection as 'temporary' ([Warr 2014a](#)). Therefore, the simulation results do not specifically present the welfare effects of the rice pledging scheme.
- Given the above background, this study, therefore, aims at investigating the welfare effects of various Thai rice policy options including the pledging scheme and selling-off strategies.
 - Using 2010 as the base year, in particular, it applies a dynamic, stochastic, ten-region, partial equilibrium model of world rice trade.

Thai rice area, production, exports and stocks

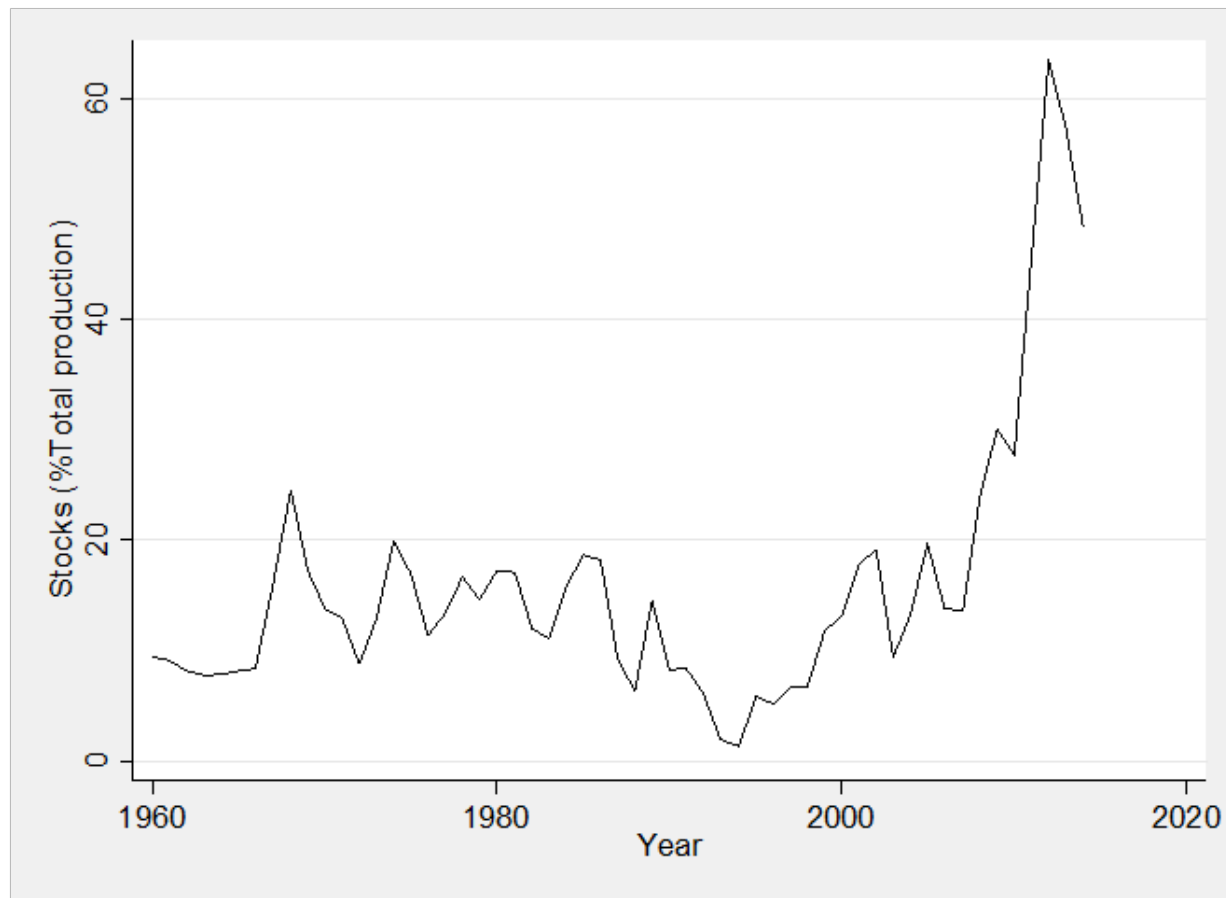
	2010/11	2011/12	2012/13	2013/14
	(i)	(ii)	(iii)	(iv)
Area harvested (1000 ha)	10,667	11,000	10,837	10,920
Milled production (kt)	20,262	20,460	20,200	20,460
Exports (kt)	10,647	6,945	6,700	8,500
Ending stocks (kt)	5,615	9,330	12,808	11,724
Domestic consumption (kt)	10,300	10,400	10,600	10,875

Source: USDA ([USDA 2015](#)). 'kt' means kilo tonnes.

Thai rice production and domestic consumption (1960-2014)



Thailand stocks (% total production) (1960-2014)



The pledging scheme

- The rice price-pledging scheme:
 - The initial objective was to provide a loan at low interest rate for farmers who needed cash in the early harvesting season so that the farmers can keep their products from selling at low price and delay sales until prices rise later.
 - The Bank of Agriculture and Agricultural Cooperative (BAAC) to lend the farmer money equivalent to the predetermined value of the pledged rice.
 - The farmers receive the loan for their pledged rice at the net interest cost of 3% per annum and are given 5 months to redeem their pledged rice. Otherwise the pledged rice goes to the government.

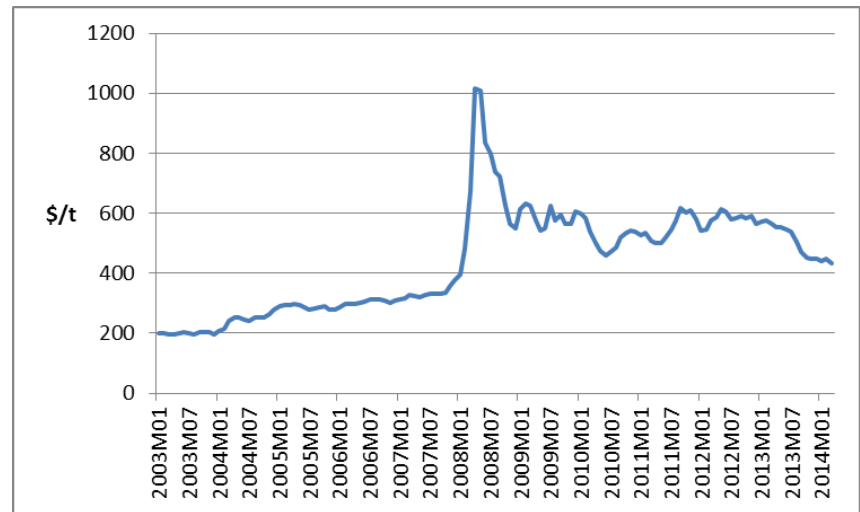
Criticism

- The pledging scheme sparked debate over strategies to achieve food security programs particularly in the Asian region.
 - A standard buffer stock scheme normally involves governments purchasing and stockpiling a commodity when prices are low and selling it when prices are high.
 - The Thai policies seemed to have been aimed at raising world prices by temporarily removing supply from the world market. The former PM Shinawatra was accused of attempting “to manipulate the world’s rice market by buying up supplies” ([Murdoch 2013](#)).

Was Thailand 'big enough' to influence the global rice market?

- The world price of rice showed no significant increase between 2011 and 2012.
 - The price level in September 2011 was \$616 per tonne but since then it has trended downwards, and is currently around \$400.
- This could mean that the global rice market has been quite competitive where even a major exporter is not a price maker.
- Classifying rice into four categories, Mahanath and Tauer (2014) suggested that:
 - For aggregated rice exports, Thailand does not have market power to influence export prices in its four major export markets.
 - Results indicate that Thailand has some market power in the glutinous rice export markets to China and Indonesia.
- Thailand's domestic pricing programs are not heavily distorting world rice markets (John 2013).
- Other reasons?

Thai rice price, 2003-2014

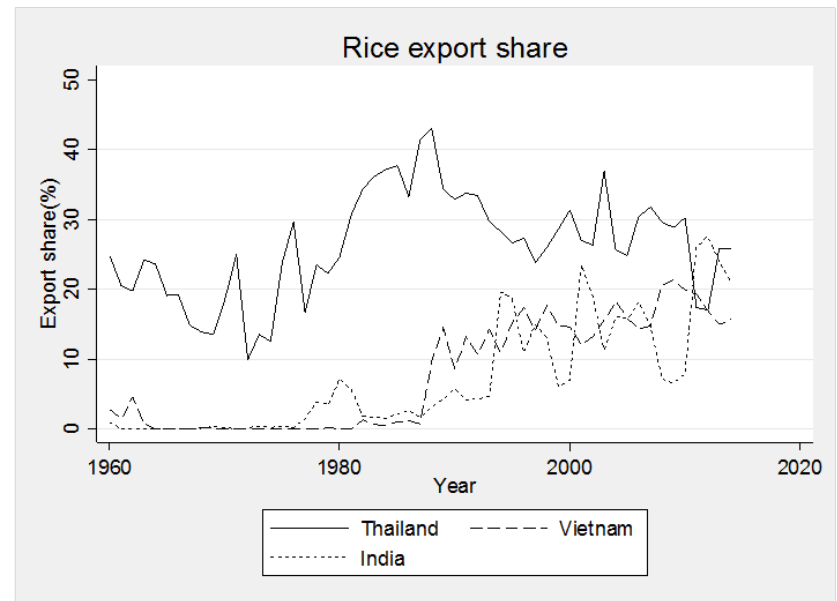


Source: IMF ([IMF 2014](#))

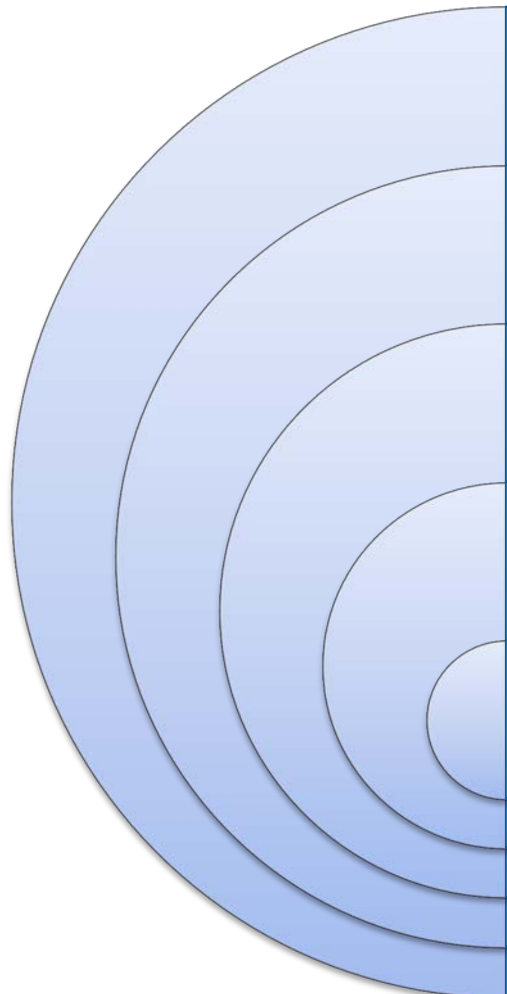
Bad timing?

- The timing of Thailand being edged out of its top exporter position for the first time in three decades was simultaneous with:
 - India needing to unload stocks accumulated during a four-year ban on non-Basmati exports ([Larson 2013](#)).
 - Indonesia also bought less rice from Thailand due to higher domestic output ([Russell 2013](#)).
 - The Philippines' commitment to import rice from Thailand was constrained by the passing of the importation burden onto the private sector.
 - Thailand is also facing increased competition with Vietnam ([Lakkakula et al. 2015](#)). The private sector in Philippines preferred to import rice from Vietnam due to its lower price ([Manila Bulletin 2013](#)).

Rice export share, 1960-2014



Analysis: Policy scenarios



Baseline	<ul style="list-style-type: none">•2010 data
Scenario A	<ul style="list-style-type: none">•Pledging scheme•3-year stock purchase
Scenario B	<ul style="list-style-type: none">•Pledging scheme•3-year stock purchase•Stock sell-off in one year
Scenario C	<ul style="list-style-type: none">•Pledging scheme•3-year stock purchase•Stock sell-off in three years (5000 kt in Years 4-6)
Scenario D	<ul style="list-style-type: none">•Pledging scheme•3-year stock purchase•Stock sell-off in five years (3000 kt in Years 4-8)

Welfare effects

Number of years since the program launch	Welfare change (in \$billion)			
	Year	C	D	E
		Pledging scheme + 3-year stock purchase+ Stock sell-off in one year (15000 kt in Year 4)	Pledging scheme + 3-year stock purchase+ Stock sell-off in three years (5000 kt in Years 4-6)	Pledging scheme + 3-year stock purchase+ Stock sell-off in five years (3000 kt in Years 4-8)
1	2010	-2.14	-2.14	-2.14
2	2011	-4.31	-4.31	-4.31
3	2012	-5.38	-5.38	-5.38
4	2013	4.31	-0.43	-1.50
5	2014	-0.50	0.53	-0.85
6	2015	-0.72	1.32	-0.35
7	2016	-0.83	-0.64	0.08
8	2017	-0.90	-0.81	0.48
9	2018	-0.93	-0.92	-0.83
TOTAL		-11.41	-12.7	-14.80

- By assuming that the government sets the pledged price 50 per cent above the market rice and purchases 5,000 tonnes per annum, results from this study suggest that the program would cost the government about \$11.8 billion in the first three years of program implementation (i.e. 2010-2012) and \$15 billion in its first four years of implementation (i.e. 2010-2013).
 - Quite close to the ones reported by:
 - the World Bank (2012): a loss of 1.2 per cent of GDP for the 2012/2013 Program (or based on the Thai GDP at 2013 it equals **\$11 billion**);
 - Recently, the Bank's 2014 East Asia Economic Update quoted an estimate by Thailand's Ministry of Finance suggesting a loss of 3.8 per cent of GDP (or based on the Thai GDP at 2014 it equals **\$14.7 billion**) ([The World Bank 2014](#)).

Dealing with the rice mountain

- Selling within one year is the best approach, resulting in minimum welfare losses.
 - Mainly explained by significant storage costs.
 - Selling off Government stocks over one, three and five years results in estimated sector-wide welfare losses of \$8 billion, \$11.7 billion and \$14 billion respectively over a five year period.
- Out of 18 million tonnes of rice stocks that the Thai government accumulated from the pledging scheme, only 10 per cent are of standard quality; about 70 per cent are below-standard and about 20 per cent are unfit for human consumption ([Oryza 2014](#)). The government loss would be even greater for the three-year and five-year scenarios if spoilage were considered.
 - Our estimate does not take account of spoilage over time.

Recent development

- **Pressure on world rice price continues**
 - The Thai military government is planning to sell 11 million tonnes of rice in 2015.
 - But as of June 15, Thailand had only shipped 3.9 million tonnes of rice this year.
- **Protectionist trade policies remain in place:**
 - On-farm pledging scheme (albeit at lower prices than the one under Yingluck); the income support measure; the off-farm employment assistant program, a rice insurance program, the interest subsidy program.



Food for thoughts

- Substantial losses are evident.
- Concerns about how Asian countries collectively achieve regional food security.
 - At what level would we define food security?
 - What frameworks would ‘work’ when there is a shock to the food system?
 - Who are the losers and winners?
 - How can we define good food policy?
- Do the so-called protectionist policies really protect smallholder producers?
 - At what cost?
 - Is there any alternative policy/program to the current ones?



- **Thank you.**
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