

## How Would Japanese Rice Radiation Test Impact Global Rice Markets?



The newly minted rice futures contract in Tokyo could have hardly started under more complicated circumstances. As soon as the contract started trading, the prices were bid up 40% from the asking price with authorities immediately shutting down the trading. No trades were executed. A Japanese rice trader told Oryza the speculators think that the current rice crop may not be safe to eat after Japanese government admitted that excessive levels of radiation have been found in some of the food in Japan but that Japanese are too proud to look outside Japan for rice anytime soon beyond the rice import obligations of the Japanese government under the World Trade Organization (WTO) under which Japanese authorities allow limited tonnage to enter Japan from a few restricted origins including California, Thailand and China. Japan produces over 8 million tons of medium grain and short grain rice. Japanese rice industry has been suffering from the problem of over-production and declining rice consumption. Japanese rice prices are among the highest prices paid by the consumers anywhere in the world, in effect, subsidizing the Japanese rice production.

The Japanese government is usually looking for ways to get rid of the rice the country imports under the WTO treaty agreements and has gone to extreme lengths to keep the rice from entering the domestic market, including occasionally donating the rice to other countries.



Japanese rice specialists say importing rice is not an option! Some say Japanese government has more than enough stocks on hand. Others say Japanese rice cooperatives which run the Japanese rice industry are staunchly opposed to rice imports outside WTO obligations. Supposedly, the cooperatives argue that the new crop will be enough to meet any domestic demand. Most of the Japanese rice cooperatives are against trading in rice futures and some of them have publicly declared their opposition to use the rice futures in any way, shape or form.

Oryza spoke to a rice merchant in California, one of the key suppliers of medium grain and short grain imported by Japan under WTO agreements, who said the California rough rice prices were stable and farmers were complaining that California rice mills and exporters were holding back the prices at the farm gate. California medium grain prices have been steady to easing down in recent weeks with a wide gulf between what the farmers want for their rice and what the buyers are willing to pay. Benchmark California medium grain milled rice, 4% broken, is indicated around \$875 per ton. Japanese medium grain futures prices around 18,500 yen reflect a price of about \$4,000 per ton!

Global trade in medium grain rice is limited and restricted to a few origins and destinations. Besides California, other important origins include Australia, China and Egypt. There have been rumors recently that Egypt may be re-entering the world markets shortly as the country harvests what is expected to be a large crop. Currently, Egypt has a ban on rice exports after suffering a big drop in rice production last year. According to rough estimates, Egyptian crop this year is likely to rebound back to about 4 million tons which has been the historical average rice production in Egypt during 2005 – 2009. Production dropped to about 3 million tons in 2010 but is expected back to normal with the harvested area up almost 70% compared to last year on very high domestic prices.

Egyptian government has been trying to restrict rice exports to keep a lid on domestic rice prices and to ration use of water which is fast becoming a scarce resource for the parched country. Government strategy has not exactly worked. Domestic rice prices have remained high and with no way to enforce acreage, rice farmers have been planting like there is no tomorrow hoping to cash in higher prices.

Egyptian ban on rice exports was put in place in September 2010 for a year. Oryza talked to a buyer of Egyptian rice in Europe who said there was no question that Egyptian government will lift the ban on exports and that it was just a question of time as to whether exports will be allowed in 2011 or sometime in 2012. Egypt could easily export about 500,000 tons or more if the export ban is eased – in line with what Egypt traditionally has been exporting. Not everybody agrees. An analyst said although the



Egyptian acreage is significantly higher, the yields might be poor and that may put a damper on export plans.

Australia will produce about 800,000 tons of rice this year and will export most of that. Eighty percent of rice grown in Australia is medium grain Japonica, a temperate variety. The rest is long-grain Indica type varieties, including some fragrant rice. Nearly 70% of the rice produced is exported and Australian rice exports are handled by SunRice. Rice is grown by about 2,000 family operated farms. Australia's rice farmers face a lot of domestic regulations and pressure to reduce water use and environmental impact. This has pushed the Australian rice industry to be the most efficient and productive in the world, producing some of the highest quality medium grain rice at the highest global yields, at about 10 tons per hectare. The Australian Rice Grower's Association brags that "every grain is digitally scanned to ensure it is top quality, and is rejected if it doesn't make the grade." Australian farms also grow rice in a rotation cycle with other crops over four or five years to save water and soil nutrients.

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