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What's Behind the Surge in Global Rice Prices?

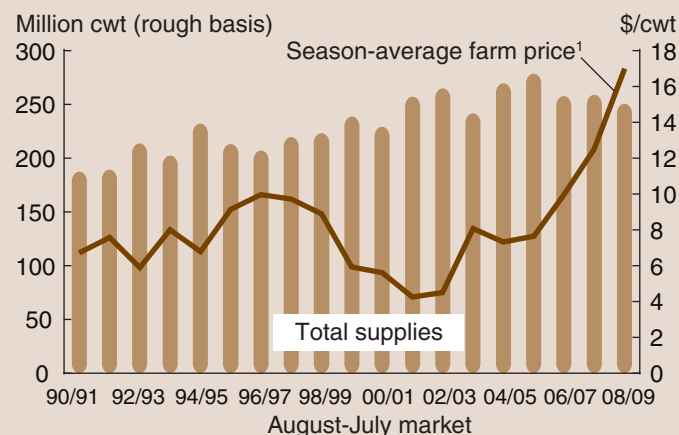
U.S. and global rice prices surged to record highs this spring. Thailand's high-quality long-grain rice—a benchmark for global trading prices—exceeded \$1,000 per ton in late April 2008, double its price in early February and triple prices of a year earlier. U.S. prices soared as well, with long-grain milled rice quoted at \$950 per ton, up \$410 from early February and more than double the price of a year earlier. The global market has a big impact on U.S. prices, as the U.S. exports about half its crop each year. Global prices have declined about 25 percent since late April; U.S. prices have dropped about 13 percent.

The rapid price increases were not due to poor harvests, a surge in demand, or a tight global supply situation. Global rice production in 2007-08 was the largest on record, and the 2008-09 crop is forecast to be even larger. Global ending stocks actually increased in 2007-08, and are projected to rise this year, as well. Instead, factors not directly related to rice market fundamentals accounted for the surge in prices.

Export bans, restrictions, and taxes implemented by several major suppliers were the most important factors behind the price surge. In fall 2007, Vietnam and India, the second- and third-largest global exporters of rice, placed partial bans or restrictions on new sales. Then, in December 2007, China announced an export tax. The bans, restrictions, and taxes were imposed to ensure affordable domestic prices for rice, a key food staple in Asia, in an environment where rising fuel and commodity prices are eroding the purchasing power of low-income Vietnamese, Indian, and Chinese consumers. However, by insulating and stabilizing rice prices in domestic mar-



The 2008/09 U.S. season-average farm price is the highest on record



¹2008/09 mid-point of range.

Sources: USDA, Economic Research Service, 1990/91-2005/06, 2007 *Rice Yearbook*; 2006/07-2008/09, World Agricultural Supply and Demand Estimates, www.usda.gov/oce/commodity/wasde/index.htm

kets, these actions reduced the availability of rice on global markets, and world rice prices began to rise.

The price increases accelerated in March 2008 when India and Vietnam reimposed their bans, and two smaller exporters, Egypt and Cambodia, announced temporary bans as well. Prices were further boosted when the Philippines—the world's largest rice importer—attempted to purchase large amounts of rice to ensure adequate supplies and limit food price increases. Finally, in late April 2008, Pakistan announced

minimum export prices for various grades of rice. By early May, among top global exporters, only Thailand and the U.S. were not restricting sales.

Three other factors also contributed to the surge in global rice prices. First, prices for fuel and fertilizer—major farm inputs—reached record levels. Second, prices for most other agricultural commodities, such as wheat, corn, and soybeans, were at or near-record highs. And finally, the weak U.S. dollar boosted global prices since most rice is traded in dollars. \mathcal{W}

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This finding is drawn from . . .

Rice Outlook, by Nathan Childs, RCS-08g, USDA, Economic Research Service, July 2008, available at: <http://usda.mannlib.cornell.edu/usda/ers/rcs//2000s/2008/rcs-07-14-2008.pdf>