

Commodities

Lull in the Rice Fields: The Asian Experience

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The strengthening of El Niño weather phenomenon has led to lower than average rainfall for India's monsoon season, thereby raising concerns for paddy crops production.

During the month of June, the above-normal rainfall in India along with normal rainfall in Indonesia and the Philippines had the El Niño¹ crisis under control. The global rice market then had more or less ignored the negative crop output predictions. Surplus rice in Thailand and buffer stocks with other key Asian exporters in the past few months had made the forecasts for paddy crop look less gloomy and at one point, analysts had also hinted at bumper production. In September, the strengthening of El-Niño led to lower than normal monsoon prediction and ultimately, 12 percent lower than average rainfall during the four months (June-September) of monsoon.

For the uninitiated, El Niño is a climate cycle in the Pacific Ocean which has a global impact on weather patterns. The cycle begins when warm water in the western tropical Pacific shifts eastward along the equator towards the coast of South America. Normally this warm water pools near Indonesia and Philippines. Forecasters declare an official El Niño when they see both ocean temperatures and rainfall from storms veer to the east. The warm waters release energy into the atmosphere that changes the entire weather pattern of the planet. This cycle occurs every three to five years.

During the year 2015, El Niño has induced drought in other Asian countries which has already affected the rice crop. Thai Authorities recently lowered the estimate of the 2015 main paddy crop by around 2.5 million tons (10 percent). Similarly, in the Philippines, below-average rainfall in the May-June delayed planting and has reduced sowing of the just completed main rice crop for the rainfed region (Food and Agriculture Organization, FAO GIEWS country brief for the Philippines, 15 June 2015). In Indonesia, the main rice crop season, which is 95% of the annual production, starts in November and planting, continues until January. The possibility of El Niño in those months will be critical for the 2016 main rice crop in Indonesia (Dr. Sam Mohanty, Head of Social Science Division, International Rice Research Institute, IRRI).

The importance of rice as a commodity can be gauged from the statistics which tells that it is highly concentrated in South and South-east Asia. It is a political commodity for rice producing and exporting nations in Asia. Of the five top exporters, four (Thailand, India, Vietnam, and Pakistan) are from Asia. Thailand has occupied the top spot for the most part in the past four decades. For these Asian rice-exporting countries, rice is still the most important staple food, and

¹ (livescience, 2015)

hence domestic food security and the strategic reserve is extremely important (IRRI data).

As November approached, the Indian regulatory bodies raised a panic alarm over rice prices due to decreased stocks. A study conducted by Associated Chamber of Commerce of India (ASSOCHAM), highlighted the urgent need to monitor the food prices, failing would result in price rise of rice in the coming months. The study comments that rice may cause a drastic reduction in consumer spending after prices of pulses, onion and edible oils have dealt a serious blow to consumers.

The study also takes cognisance of rice stock which has declined in last three years from 24.59 million tons in 2012 to 13.89 million tons (plus unlimited paddy 3.61 tons) in stocks at present. Increasing export on account of PDS (Public Distribution System) and other welfare schemes will continue to weigh on availability in the open market. Unless the government is able to handle the situation prudently, depleting stocks will soon reflect on the open market prices, the study added.

As per the government estimates, Kharif rice production is estimated at 90.61 million tons in 2015-16 crop year. This is unlikely to be achieved due to deficit rain in Punjab, Haryana, Uttar Pradesh, Bihar, Maharashtra and Karnataka and the best that could be achieved is 89 million tons. The overall rice output may be around 103 million tons during 2015-16.

In the global market, rice prices, taking a cue from El Niño weather pattern have surged by 10 to 20 percent as croplands in Asia dried up. The El Niño had started affecting Indian monsoon patterns with the resulting drop in average annual rainfall of 12 percent. Thai provinces were facing eminent drought which ought to have been a wet season, suitable for planting which has resulted in lower output expectation in Vietnam.

Rice stocks in the four Asian rice producing and exporting countries- India, Thailand, Vietnam, Pakistan has deteriorated in 2014 when world trade in rice rose to a record 42.8 million tons. Exports from the top three countries, which account for 68 percent of the world rice trade, are seen at 27.2 million tons this year, reduced to 6.2 percent from a year ago, according to the UN Food and Agriculture Organization (FAO).

The warning signs had already begun to appear in the Pacific as El-Niño effect started taking shape. Global markets had already factored the change in weather pattern and the resulting loss in output from Asia. The top importer, China has already stocked up reserves over future concerns of supply shortage in the global market. As stated earlier, rice is a political commodity for the Asian countries where it sets the tone for government performance. The ability of a government to deal with rice prices and exports defines political mandate of the incumbent government. This year's El Niño is expected to be the worst since the one in the late 1990s, which brought severe drought in parts of Southeast Asia and flooding in North America. The weather phenomenon this year could affect rice exports—the majority of which originates in Asia. India is the top exporter of paddy and El Niño has left its mark on the rice fields in terms of reduced rainfall. How the government will cope up with the surge in prices will speak in itself about our current government's ability to monitor domestic markets, keep consumers and farmers happy and also check the flow of exports.