



Consideration for Achieving Stable Rice Dealings

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INTRODUCTION

It is important for stabilizing rice farmer's management to maintain the order of markets and to expand stable dealings between farmer's organizations which engage in shipping rice and distributors on behalf of food industries. Recent shifts, however, has changed dramatically. It rose by 4,000yen per 60kg from RY¹2010 to RY2012, but dipped down by 4,000 yen from RY2012 to RY2014².

To maintain and expand stable rice dealings, the Ministry of Agriculture, Forestry and Fisheries (MAFF) held a study group composed of interested parties who engage in rice distribution. In Japan, rice is a highly politicized agricultural commodity. The group of Japan Agricultural Cooperative (JA) occupies about 50% of the part of rice distribution and has a big impact on rice policies. So, the report of this study group became the product of political compromise. The expression of this report, especially relating to the rough estimated payment³ which focused on the source of the fluctuation of price, is so vague and complicated that each interested party can interpret it as he likes. I translated it directly to make readers understand the nuance of political compromise.

¹ In Japan, Rice Year (RY) ranges from 1st November to 31 October next year.

² In RY2010, the price of relative dealings was 12,711yen per 60kg. It rose from 15,215yen in RY2011 and 16,501yen in RY2012, then dipped down to 14,344yen in RY2013 and 12,078yen in RY2014.

³ The JA sales rice which is consigned by farmers, takes two or three years. It, at first, pays about 80-90% of final price as the rough estimated payment to farmers in autumn when they harvest. And then, it pays the rest of the price, corresponding to the environment of sales. Practicing this way of sales, the JA can avoid the risk of dead stocks.

In this article, I will translate the report of MAFF's study group which considered ways to expand stable rice dealings⁴. This translation is not the official publication of MAFF.

TRANSLATION

Report of Study Group about Stable Rice Dealings

1. *Introduction*

“Plan to Create Dynamism of Agriculture, Forestry, Fisheries and Local Area”⁵ which was enacted on December 2013 said that, until RY2018, interested parties should prepare an environment for achieving the smooth rice production which corresponds to demand, for example ‘further promotion of the production which corresponds to needs of food industries, and that of the stable dealing.’ This state of production which producers and shippers⁶ play a main role would not depend on the distribution of the targeted production quantity from the government.

The price of rice, like other commodities, is decided by the trend of supply-demand. It, however, has the feature of fluctuating significantly against the change in supply because of its low price elasticity of demand. This change strongly influences not only producers but also distributors and food industries who intend stable supply to consumers.

In this situation, both shippers, distributors and food industries try to mitigate risks caused by the change in supply-demand and price, utilizing stable dealings, for example advance contracts.

Taking into consideration the above situations and the necessity of reviewing rice policies, the study group about stable rice dealings which was composed of interested parties related to rice distribution has been held, and has discussed about the state and ways of stable rice dealings.

2. *State of stable rice dealings*

- 1) Advance Contracts (Contract before Seeding, Multi-Year Contract)

⁴ If you wish to read the document in its original language, refer to the MAFF's website (http://www.maff.go.jp/j/seisan/keikaku/soukatu/kome_antei_torihiki/pdf/houkoku_antei.pdf).

⁵ If you wish to know this plan in detail, refer to Dr. Sakuyama's past article (http://ap.fftc.agnet.org/ap_db.php?id=295).

⁶ In this context, “shippers” means the JA which collects rice from farmers and sells it to distributors.

Advance contracts, for example the contract before seeding and the multi-year contract, are the main ways to achieve stable rice dealings by making contracts before the harvest in autumn.

Out of dealings which are handled by shippers occupy about 40% of rice production (3.52 million tons), the amount of advance contracts is 1.28 million tons, and that of the multi-year contract which is the most stable way is about 0.27 million tons.

2) State of relative dealing

The relative dealing between shippers, distributors and food industries is the most famous type of rice dealing (it occupies 40% of production). The price of the relative dealing, however, has not been stable recently, although the amount of supply which depends on the good or bad harvests has not changed significantly. It rose by 4,000 yen per 60kg from RY2010 to RY2012, but fell by 4,000 yen from RY2012 to RY2014.

3) Spot market

In rice dealings, the relative dealing has played a major role in distribution because rice has the feature which does not tend to deteriorate for a long time, and rice industries have infrastructures from collection to distribution to marketing.

On the other hand, the National Center of Rice Dealings and Price Formation as the rice spot market was abolished in March 2011. Three private markets continue to transact 200,000 tons annually. As needs of distribution get diverse, the establishment of new types of market, for example multi-year produced rice market, is considered in the private sector.

4) Provision of rice information

The MAFF provides, through “the monthly report of rice,” the information of supply-demand in detail every month. Contents of “the monthly report” was expanded since April 2014, as the number of brands which include price information became 94 from 44.

3. *Future Directions*

1) Necessity of expansion of advance contracts (stable dealings)

It is desirable that, in private dealings, the rice production which corresponds to demand makes the level of price and the stable supply. However, the change in supply caused by harvest and the low price elasticity of demand caused the great fluctuation of price.

In this situation, advance contracts (stable dealings), for example the contract before seeding and the multi-year contract, can mitigate risks caused by the fluctuation of supply-demand and price, writing clearly not only the amount of transaction but also the price of it such as plus-minus 5%.

Above dealings have a possibility of expanding stable dealings, as interested parties can expect the amount of transaction in advance and can limit the price level into the certain range.

Stable dealings contribute to the achievement of rice policy reform aiming for the production system which does not depend on the distribution of the targeted production quantity, because they can make each farmer expect the amount of sales in advance and promote the production which corresponds to demand.

2) Ways towards expansion of stable dealings

On the other hand, there were many opinions that the significant fluctuation of annual rice price caused by opaque factors excepting for the trend of supply-demand makes it difficult for interested parties to continue advance contracts and the expansion of stable dealings.

In this situation, there were also many opinions that the rough estimated payment which is paid at the time of sales commission have to be transparent. The rough estimated payment is set to fluctuate significantly without clear grounds on July and August when the environment of harvest is not clear yet. This situation does not make distributors and food industries being satisfied adequately.

There were also many opinions that the rough estimated payment have to be made understandable and transparent for distributors and people in the food industries and that producers should be acknowledged the process of price formation, for example “the previous three years average” or “the previous five years average except for the highest and lowest years” are set in June when produces make the plan of farming. There were also opinions, as assumptions, that it is important to stabilize supply-demand, and that the rough estimated payment has to be revised if the harvest and the trend of supply-demand change dramatically.

Furthermore, there were many opinions that the basic price of relative dealing, at first, should be set by same grounds, and that actual dealings should be implemented as interested parties can agree after the actual harvest and the trend of supply-demand become clear.

Not only the amount and the price of transaction but also the quality of rice is important to expand stable dealings. So, there were opinions that producers should change their production from the rice which they can grow easily to the rice which corresponds to various needs of the food industry, and that needs of the industry should be smoothly transmitted to actual rice production.

In addition, there were also opinions that the understanding of members of the food industry is important to promote stable dealings, and that it is important to reduce production cost by the consolidation of farmlands and the promotion to expand the quantity lot of transactions.

Furthermore, throughout one year’s dealings, shippers tend to rapidly sell their previous year’s products at a cheaper price until newly harvested rice is going to be sold because they are afraid that previous year’s products would result to overstocking. There were also opinions that it is important to correspond to the demand which the food industry recently utilized the previous year’s rice even after October when newly harvested rice is going to be transacted if the quality of previous year’s one is good.

3) Activation of spot market

There were many opinions that the spot market would be utilized as the place of making price standard assuming features of products. There were also opinions that, taking in various ways of transfer, the spot market should be improved to be utilized by shippers, distributors and food industries and that polite provision of information is important.

4) Information provision from the government

Rapid information provision about supply-demand and price from the government is important to expand stable dealings.

Hereafter, rapid (at the fast stage of next month) and broad information provision about crops besides rice is important to contribute to farmers' decision on planting.

CONCLUSION

This report is made from the discussion which interested parties implemented for five times to expand stable rice dealings.

It is hoped, that under the new rice policy, interested parties who participate in rice production and distribution would play respective roles and that the expansion of stable dealings would be achieved.

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