

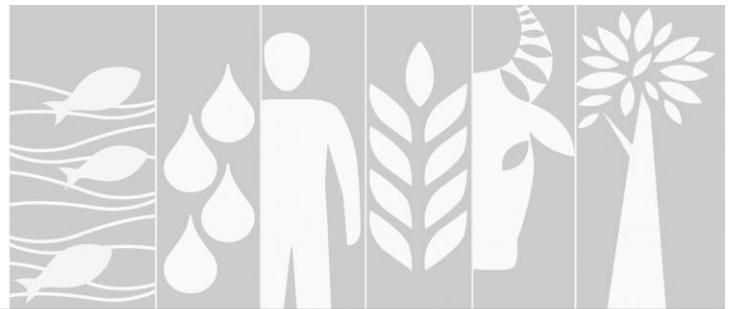
FARMD Annual
Conference 2012:
Risk & Rice
in Asia



PROCEEDINGS

FARMD ANNUAL CONFERENCE 2012:

Risk & Rice in Asia



IN COLLABORATION WITH: THE CENTER FOR
AGRICULTURAL POLICY, INSTITUTE OF
POLICY AND STRATEGY FOR AGRICULTURAL
AND RURAL DEVELOPMENT (IPSARD),
VIETNAM

October 17 - 18, 2012
Ho Chi Minh City, Vietnam



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I. INTRODUCTION

From October 17 – 18, 2012, the Forum for Agricultural Risk Management in Development (FARMD) held its third annual conference in Ho Chi Minh City, Vietnam entitled, “Risk & Rice in Asia”. The conference was structured to examine the risks and risk management opportunities for Asia’s rice supply chains.

Risk & Rice in Asia brought together over 220 stakeholders from across Asia, and around the world, involved in rice supply chains to promote knowledge exchange and networking. Through panel sessions and presentations, 34 rice sector actors shared their insights and experiences from the stage, while inviting active audience participation.

I. DAY 1

Welcome and Introduction

Dr. Bui Ba Bong, Vice Minister of Agriculture, Ministry of Agriculture and Rural Development (MARD), Vietnam delivered the welcome speech for the conference. The many risks facing not only the Vietnamese rice sector, but also the global rice sector, were highlighted, including changing consumption patterns, the occurrence of natural disasters, and price volatility in commodities markets. It was emphasized that rice is not only a critically important agricultural commodity for the region, but also an inherently risky one, requiring strategic risk management solutions. The FARMD Annual Conference was deemed an important opportunity for sector attendees to engage with experts, share knowledge, and discuss key topics to identify suitable risk management strategies and tools.

Regional Rice Overview: Regional and Global Trends

Dr. Peter Timmer, Professor Emeritus at Harvard University delivered the keynote speech addressing trends in regional and global rice sectors.

A broad historical context of the challenges facing rice sectors was presented, focusing specifically on the major transformations that will affect local, regional, and global rice supply chains in the future, namely structural, agricultural, and dietary.

Structurally, agriculture as a share of national GDP and labor force declines as economic development takes root. In regards to agricultural transformation, the demand for rice is predicted to level out and start to decline. Productivity and farm sizes will continue to increase, raising the production of many more crops at much lower costs. Finally, from a dietary standpoint, as countries obtain higher per capita GDP, their diets and consumption patterns shift away from rice and diversify into meats, fruits, vegetables. In the face of these

impending structural changes, rice is increasingly becoming “the food of the poor.” This has significant implications for poverty, particularly when governments use policies such as high rice prices as a mechanism to guarantee food security and rice self-sufficiency in the face of a thin and unstable rice market.

Session 1A: Production Risk in Rice: Focus on Risk

Udhoro Kasih Anggoro, Director General of Food Crops, Ministry of Agriculture, Indonesia; **Apiradee Yimlamai**, Director of Research Center, Bank for Agriculture and Agricultural Cooperatives, Thailand; **Raul Montemayor**, National Manager, Federation of Free Farmers Cooperatives, Philippines; **U Hla Htun**, Managing Director, Myanmar Rice Miller Company; **Sumeth Laomoraphorn**, CEO, C.P. Intertrade.

The panel highlighted that while production risks directly impact rice producers, other actors in the supply chain may also experience adverse impacts. Banks, for example, face the threat of significant losses should their rice sector clients experience production shortfalls. Regionally, the broad consensus was that natural disasters, in combination with a lack of broader understanding of the many production risks beyond weather, were the main issues related to rice production faced by the rice sector.

Session 1B: Production Risk in Rice: Possible Solutions

Christina Ulardic, Vice President of Corporate Solutions, Swiss Re; **William Salas**, President and Chief Scientist, Applied Geosolutions; **Shane Emms**, Commercial Head, Syngenta Vietnam; **Dr. K.L. Heong**, Principle Scientist in Insect Ecology, International Rice Research Institute; **Dr. Matty Demont**, Senior Value Chain Specialist, AfricaRice were brought together to discuss production risk management options in more detail.

The main strategies discussed for managing production risk included farmer education and capacity building. The lack of properly trained farmers was viewed as a major constraint for the rice sector, especially when combined with the general misunderstanding about the risks faced by the sector.

Key to improved risk management, according to the panel, is improved information. Quality information delivered through appropriate communication channels and focused on holistic risk management strategies was the main message for improved management of production risk. One of the major challenges facing the dissemination of quality information and training materials to farmers, however, is the number of farmers working in the rice sector. It is a daunting task to deliver information to all the 10 million farmers working in Vietnam alone.



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Providing quality information through channels farmers can access is critical. In Vietnam, television is used to broadcast information on integrated pest management (IPM) to farmers. In this program, community leaders are also engaged to share their best practices with neighbors and other farmers, serving as role models to help the community increase productivity. The importance of people alongside technology cannot be underestimated for the longer-term sustainability and success of these programs.

Rural training in Africa faces significant challenges in delivering training and information because of distances between farmer groups, lack of electricity, and lack of capacity. One of the solutions developed for these issues, and which could be similarly applied in Asia, is a “video van,” which shows videos promoting extension work and takes the training and information directly to farmers and is delivered by qualified professionals. The amount of information delivered in this manner may be small, but the information quality and support provided to farmers is significant.

Ms. Ulardic of Swiss Re stated that insurance is only one of a selection of possible production risk solutions. She noted that insurance can be improved when be bundled with credit and when payouts to farmers are speeded up through IT solutions such as mobile phones. She pointed out that while insurance can help with financial losses caused by risk, it cannot help with physical losses, which highlights the need for considering a range of interventions to manage risk. In short, risk transfer solutions alone are insufficient and must be complimented by coping and mitigation strategies.

[Lunchtime Presentation: Impacts of Climate Change on Rice Production in China](#)

Dr. Wei Xiong, Professor, Chinese Academy of Agricultural Sciences, spoke on the impact that climate change will have on Chinese rice production. He noted that rice production needs to increase by 30% in the next 20 years to feed the increasing population, and as such there is an urgent need for adaptation strategies.

Dr. Xiong explained that climate change has decreased rice yields in China by 12.4% since 1960. The effects of climate change on production has not been widely noticed as China is a large country and the dramatic effects on production seen in individual regions when averaged out nationally can be overlooked (positive impacts seen in the north, where rice production has been able to expand with rising temperatures and negative in the south where temperature changes are reducing rice production)

Dr. Xiong asserted that rice production can continue to benefit from the effects of global warming going forward by expanding single rice cropping further north and with double rice cropping moving to the northern portion of the Yangtze River basin. He concluded that the national mean rice production is estimated to increase by 2.7% to 19.2% considering the combined effects of climate change, CO₂ and shifting rice production areas. Upon further analysis, however, the increase in production faces several serious challenges including diminishing water availability, climate variability, and increasing yield losses due to pest and disease, which will all need to be addressed if rice production is to increase and not dramatically decline.

[Session 2: Enabling Environment Risk in Rice](#)

Dr. Samarendu Mohanty, Head of the Social Sciences Division, International Rice Research Institute, opened this panel discussion with a presentation on *The Role of Government in Improved Risk Management*.

Traditional forms of government intervention in the rice sector, such as input subsidies, price supports, and trade policies, played a crucial role in achieving food security in Asia. However in both India and Thailand, the costs of these policies have been great. Dr. Mohanty noted that many of these policies may no longer be functional due to the high costs, negative impact on the market, inability for farmers to diversify into alternate crops, inefficiencies created in the rice supply chain, and the increasing instability in the global market.

He stated that Asian agriculture is now at a crossroads. Going forward government policies should focus on direct income transfer to farmers, the introduction of a revenue safety net, and supporting the development and rapid dissemination of risk reducing technologies including improved seed varieties. There also needs to be an overall shift from traditional market oriented policy approaches to those focused on production.

Panel discussion: Dr. Dang Kim Son, Director of the Institute of Policy and Strategy for Agricultural and Rural Development (IPSARD) in Vietnam; **Dr. Nipon Poapongsakor**, President of the Thailand Development Research Institute; **Le Nguyet Minh**, Country Representative for Oxfam America; **Dr. Min Aung**, Advisor to the Myanmar Rice Industry Association; **Peter Timmer**, Professor Emeritus at Harvard University; **Victoria Serrato**, Marketing and Enterprise Development Officer, Asian Farmers Association for Sustainable Development; and **Tom Slayton**, Slayton & Associates.

Panelists discussed the topic of enabling environment risk in the Asian rice sector with the main conclusion being that government policies need consistent revision and validation as circumstances for farmers change.



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Thai rice mortgage scheme was repeatedly referred to as an example of how government intervention can distort the market. It was suggested that the program was driven by political concerns rather than economics or food security.

It was also suggested that if government tries to play too large a role, poverty, stagnation and discontent may develop. The only way out of this is for the market to play more of a role, but understand that the market also can't do everything. The rice supply chain is not a supply chain, but is rather a demand chain. In the near future it will be supermarket managers who will be the focal point for risk management.

II. DAY 2

[Session 3A: Market Risk – Price Risk for Rice Exporters](#)

Tom Slayton, *Slayton & Associates*, opened the second day of the conference presenting on the topic of *"Market Shadows, Gray Trade, and Uncertainties – World rice prices are more complicated than supply & demand."*

Long- run drivers for rice prices, include slowing population and income growth, dietary changes; changing land availability, fertilizer quality and availability, seed technology, water control, and government policies. Slaton noted that all must be monitored when trying to manage risks in the rice market. Adding to these factors in the short-run determination of rice prices are weather, changes in stocks, panicked buying and speculation, trade policies, foreign exchange rates, and freight costs.

The greatest impact on the rice market in Asia however, is the fact that stocks, trade, and sales data are all very unreliable and are often disputed between sources. Only Thailand, Vietnam, and the U.S. require sales to be registered with the government; however Thai and Vietnamese sales data remain confidential. This amounts to large amounts of gray trade moving between countries and leaves questions as to the amount stockpiled in Thailand and India from government policies. Vietnam, China, and the Philippines also have policies that leave uncertainties for the market, creating unnecessary risks for rice price volatility.

The fundamental issue is that rice is a thin market, with only 8% of rice produced being traded between countries. The forecast looks bearish, particularly with the Thai stock overhang, and it was recommended that the WTO become a player in the rice market, specifically to make trade bans illegal in order to better manage market risk for the sector.

Panel discussion: Agus Saifullah, Senior Researcher, BULOG; V. Subra, Vice President of the Rice Trader; Masahiro Yamashita, Vice President of the Tokyo Grain Exchange; and Peerapat Srivithayarak, Trade Officer in the Bureau of Rice Trade Administration, Ministry of Commerce, Thailand

The policies that have been adopted in Asia to mitigate price volatility and avoid crises require a push for self-sufficiency in rice production in many Southeast Asian nations. The goal of self-sufficiency, however, hurts markets by restricting free trade. Combined with the lack of information on stocks and trade, transparency of the market is one of the clearest solutions toward reducing the volatility that has plagued the rice market.

Not only do volumes need to be transparent but also the quality of the stocks. For example, the Thai rice scheme has led to a fall in rice quality, as the scheme accepts all rice. This creates an incentive for farmers to produce low-quality rice quickly as they are guaranteed a purchase price. This rice is then uncompetitive in the international rice market, which further negatively impacts the market. Transparency on stocks and quality would allow for more informed supply and demand decisions to be made across the supply chain.

[Session 3B: Market Risk – More than just Price](#)

Paul Nicholson, *General Manager, Research & Rice Management, Rice Division, Olam International Limited* identified three main baskets of risk that need to be managed in commodity procurement: **price** (which faces underlying price risk, basis risk, and transportation/milling/insurance price risks); **physical supply chain** (which faces quality mismatching, quantity mismatching, weather/labor/port issues, and credit or liquidity issues); and, **legal issues** (which include contract default and policy changes).

Risk management techniques for these risks include the establishment of industry and international agreements for the drafting and enforcement of contracts and for protection against government policy changes, as well as the creation of market mechanisms to help offset other price risks. Among the market mechanisms that could be used are bank structured products, exchange traded, bilateral agreements (including long-term contracts, fixed rate, and forward contracts), insurance, vertical integration, and inventory build.

Panel Discussion: Abhishek Sahai, Senior Vice President, Rice Division, at Olam International Limited; Vichai Sriprasert, President, Riceland International; Dr. Min Aung, Advisor, Myanmar Rice Industry Association; Tony Knowles, SME Renewables, Cambodia; Nipath Kuasakul, Senior Vice President, Bank for Agriculture



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and Agricultural Cooperatives, Thailand; and Avinash Wagh, Asia Continent Manager for GrainPro, Inc.

Counterparty risk was the primary non-price market risk discussed by the panel. Counterparty risk is usually found in first contract situations, meaning that great care needs to be taken with unfamiliar third parties with whom a contract is being entered into for the first time. Trust and understanding must be present in all business relationships to help mitigate some of the non-price market risks that rice sector actors can face in day-to-day business.

The need for improved storage and reduction of post-harvest losses was also considered, as it causes significant losses annually. While governments often claim zero post-harvest losses, according to IRRI, actual post-harvest losses range between 10-30%. With this amount potentially being lost, the market becomes even thinner for domestic consumption and for international trade, further affecting price volatility.

Session 4: The Way Forward for Risk Management in Asia's Rice Sector

Jaap Smit, Policy Officer, Innovation and Markets, Ministry of Foreign Affairs of the Netherlands; Masahiro Yamashita, General Manager, Tokyo Grain Exchange; Dr. Nguyen Van Sanh, Director, Mekong Delta Development Research Institute; Victoria Serrato, Marketing and Enterprise Development Officer, Asian Farmers Association for Sustainable Development; Paul Nicholson, General Manager, Research & Rice Management, Rice Division, Olam International Limited; Christina Ulardic, Vice President of Corporate Solutions, Swiss Re; Hans Woldring, Rural Development Specialist, Asian Development Bank; Dr. K.L. Heong, Principal Scientist in Insect Ecology, International Rice Research Institute.

The panelists agreed that there should be a regional harmonization of strategies and rules. It was proposed that International Organizations take a role in the formation of this harmonizing body and lead a policy process that would bring together ethics and policies while engaging with all the key stakeholders to influence change.

But, this conference was just a first step, and a concrete discussion about whether there should be a FARMD Asian chapter created to facilitate ongoing dialogue. The ADB accepted the role of facilitator for the FARMD Asia chapter, with the mission to hold further workshops and meetings aimed at improving risk management in Asia's rice sector. It was made very clear that farmer representation is critical to making this forum beneficial.

III. TOP PRIORITIES

The top priorities identified by the conference attendees for improving risk management in Asia's rice sector going forward are:

- Increasing transparency in the regional rice market to improve certainty and reduce volatility;
- Providing direct transfers to farmers;
- Better information and extension services;
- Further research, understanding, and mitigation strategies on climate change and its impact on the rice sector;
- Improving storage to reduce post-harvest losses;
- Work to understand how to better deliver government programs and interventions in the rice sector, perhaps moving to safety nets.

IV. OUTCOMES

The FARMD Annual Conference: Risk & Rice in Asia demonstrated the value of having actors from across a supply chain come together to learn from one another about various risks and risk management options for the industry. The following were key outcomes from the FARMD Annual Conference 2012: Risk & Rice in Asia:

1. *Improved knowledge and understanding of the variety of rice sector participants in Asia and the different and interconnected risks and risk management strategies they come across.*

Based on the interviews and feedback, participants felt they gained new insights into the activities of other rice supply chain actors and the risks they face. Many also felt they gained knowledge of risk management strategies that they had not previously considered or understood. Participants expressed appreciation for the greater understanding they gained from participants they otherwise would not have the opportunity to interact with.

2. *Enhanced networking amongst rice sector stakeholders in the region and globally*

Several opportunities were provided at the conference for participants to network, exchange information and contacts, and discuss the conference themes.

In spite of the importance and size of Asia's rice sector and the cross-cutting nature of many agricultural risks facing the sector, many participants at the conference recognized that they never before had the opportunity to meet with the variety of stakeholders at the conference and work with them to better understand one another's risks and ways of addressing them.

3. *Better understanding of the need for a continued regional grouping to discuss and move forward*



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*with improved risk management strategies for
the risk sector in Asia*

Desire by conference participants and panelists to continue the discussion and move forward with next steps to plan further workshops and meetings was a key outcome of this event. Work is currently underway within the Asian Development Bank (ADB) to develop an Asian Chapter of FARMD which will carry forward the conference discussions and continue to advance the work of FARMD in Asia.

V. LOOKING AHEAD

Conference participants often cited the need for an ongoing regional forum to further the discussion and knowledge sharing around risk management practices in Asia's rice sector. To facilitate this process, the Asian Development Bank (ADB) in collaboration with FARMD offered to host this regional forum.

Through active contribution and participation from its members, FARMD seeks to continue to build and share knowledge on agricultural risk management globally, and to bring together practitioners to discuss and share experiences with the goal of identifying and acting upon improved areas for investment and improved risk management strategies.

To access all conference presentations and materials, and to learn about upcoming FARMD programs and events, visit:

<https://www.agriskmanagementforum.org/content/farmd-annual-conference-2012-risk-rice-asia>



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