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RPC Monthly Newsletter

Still waiting for concrete water decisions...

In our last newsletter, we promised a discussion on China as a market for US rice. We will discuss that, but first are going to provide a brief market update despite our waiting for final water allocations.

Market Update:

There remains little concrete information to report concerning water decisions. After surveying the California rice industry, the consensus has no doubt improved since our last newsletter with the acres now expected to be 20-30% of last year rather than earlier estimates of 40-50%.

The USDA has projected California medium grain acres to be 420 thousand acres, we expect to see acres closer to 385,000. This is because water allocations may actually have an inverse effect on planted acres because of water sales.

After some activity reported earlier in the month the cash market has been dormant since. This is likely the result of tight supplies in first hands and better than expected water allocations. The WASDE report increased its MG price and is now forecasting total US medium and short grain average season prices at \$13.80. Keep in mind that the strong majority of medium grain sales to date have been out of California. With about 15-17% of the crop still left to sell at current market prices this average season price will probably be revised upward in future reports.

There has been more change in China in the last 10 years than the previous 1,000 years.

China Update: Political Environment

Just last month, a new urbanization plan for China called the "National New-type Urbanization Plan (2014-2020)" was introduced and publicized. The point is to move rural farmers into urban cities. 100 million migrant workers will be given "hukou," or official urban residency status, by the year 2020. This will effectively raise China's urbanization rate to 60%. This new urbanization plan is an attempt to speed up and smooth the transition of China's farming population from farms to cities, focusing more on public welfare than economic growth, though economic growth has been the impetus for the urbanization drive.

This movement will result in fewer farmers in the rice fields and therefore a greater need to mechanize. There

has never been so much interest in commercial agriculture as there is right now. Commercializing agricultural is critical in meeting the demand of China's rapidly expanding population; especially when that population will have expanding incomes as well. These higher incomes are already being used to purchase high quality, safe food.

In many parts of China, pollution is so rampant that even the government is beginning to ban production of products for human consumption. After generations of restricted information, the middle to upper class Chinese citizen is now much more informed and therefore puts little stock in government propaganda. Those in the middle/high income demographics have an unprecedented demand for US

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food products, which are naturally perceived to be the highest quality and the safest in the world.

China's Land Squeeze: Enlarging cities (to fit 100 million more people) equates to shrinking ag land—which makes that land more valuable and more important. China is one of the few countries in the world where the per capita consumption of rice is climbing. This is extra impressive when considering that China can already eat the entire US rice crop in less than 14 days.

Combining the growing demand for rice, expanding incomes and the overall increasing pollution awareness, it is easy to see that China is a worthwhile market to pursue.

Where Are We in Terms of Trade to China?

Up until now, the U.S. has had no opportunity to take part in China's rice import market, though not for lack of trying. After several years and several rounds of negotiations the rice trade protocol is once again in the hands of the AQSIQ, which is the Chinese counterpart to APHIS, and is the agency tasked with negotiating the trade protocol.

After more than 4-years of negotiations it appears that we are now in the final stages. After meeting with APHIS in Beijing China on April 2nd, the RPC learned that the last major hang-up pertains to phytosanitary issues. Previously the USRPA (RPC's National Organization) hosted a Chinese delegation comprised of influential and significant distributors of food products. The goal behind hosting this group was to develop comfort with the US rice industry in order to create a new trade partner.

Unfortunately during that trip, the delegation visited a mill in Louisiana where the Chinese discovered certain pests in the trash cans and dumpsters just outside of the facility. Of course, pests outside of a mill do not possess a real threat to the rice since all the rice is fumigated prior to shipping; the Chinese were nonetheless concerned.

To boil down four years of negotiations, the Chinese are requiring both fumigation and pest trapping in order to pass the current proposed protocol. Should mills be willing to adopt and implement the trapping requirement, it is believed that rice trade would open between the two countries.

The latest draft of the protocol, which is currently in the hands of the Chinese, included APHIS's request to abolish the need for additional trapping since the process is cumbersome and overall repetitive. Most parties do not believe that the AQSIQ will accept that argument and will continue to require trapping as that is a standard that they request of other countries. An example of this would be Japan, which recently completed their rice trade protocol with China. Since then China has purchased Japanese medium grain rice, some of the most, if not the most expensive medium grain rice in the world.

APHIS hopes to have the protocol back in their hands by the end of this month. Once the protocol is returned, trade will either be open or the industry will be researching trapping.

Rice Producers of California is a state association of the US Rice Producers. The USRPA is the advocate for Rice Producers in the United States, and has played a critical role in opening up trade relationships in Latin America, the Middle East, and the Far East as well. Join the cause and support the effort for only \$150/year.

